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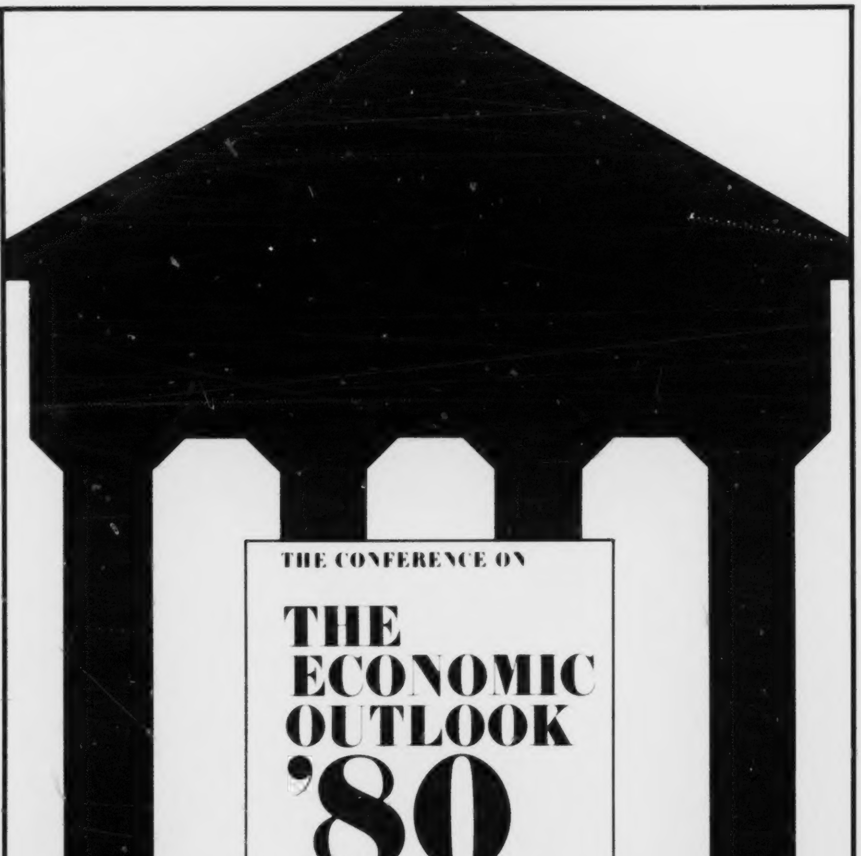
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The Market for Large Blocks of Bank Stock:

Evidence from the Tenth Federal Reserve District

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Introduction

What are the shares of a bank worth? In the relatively few situations where the shares are listed on an organized stock exchange or are actively traded over-the-counter, an objective answer to the valuation question is available. But in the vast majority of cases, bank shares are not traded in such a visible manner. In the absence of trading on either an organized exchange or an active over-the-counter market, bank shares are traded under two circumstances. First, the bank itself or a local broker or investment banker may provide a market for periodic transactions that entail only a small number of shares. Second, when a substantial number of the bank's shares are involved, trading is usually the product of personal negotiations between buyer and seller or their representatives.

Very little is known about this large block transaction market. The purpose of this paper is to provide some descriptive data on this market. Our intent is to report—using data from the Tenth Federal Reserve District[1]—who is trading in the market, the volume of trading being done, the prices being paid for bank stock, and several other transaction-related factors.

The Data Base

The data base differs from that utilized in several earlier bank stock market studies in two significant ways. First, instead of relying upon questionnaire information, it draws upon reports of actual stock ownership changes that all federally regulated banks must submit to their respective federal regulatory agencies. (As a result of Public Law 88-593 passed by Congress on September 12, 1964, a bank must report to its respective federal regulatory agency a number of details concerning bank stock transactions where control or a change in control has occurred.) The information in these reports generally is more detailed and more comprehensive than that provided by the questionnaires for the previous studies. Second, the transactions observed in this study generally involve much larger blocks of stock than those reported in earlier studies. Whereas the previous studies focused primarily on the prices of and the market for minority shares of bank stock, this study, by virtue of the data base, is predominantly oriented toward transactions that produce ownership control changes in the subject banks. In total, our data base comprises observations on more than 99.5 percent of all reported transactions in the Tenth Federal Reserve District since Public Law 88-593 was enacted through 1975.[2]

The Evidence

The descriptive evidence on the market for thinly traded bank stocks is presented under three topical headings: population characteristics, exchange descriptions,[3] and prices. The entire data base is used to obtain evidence in each of the three areas, then stratifications of the data are made in certain areas to highlight some of the ways in which the market has changed over time.

Population Characteristics

Approximately 1,469 major exchanges of bank stock took place in the Tenth Federal Reserve District from late 1964 through 1975. Table 1 presents a detailed description of the banks whose stocks were involved in a major exchange. It shows the distribution of exchanges by state both by count and as a percent of all observations. The percent of sample numbers shown in the second column are obviously influenced by differential populations, differential state banking environments, and the fact that some states represented in the Tenth District (most notably Missouri and New Mexico) have banks in other districts also. As column 3 shows, however, within any state, the percent of major exchanges that occurred during the approximately 11½-year study period equaled at least 50 percent of the number of Tenth District banks within that state.

The frequency of major exchanges was fairly high during the entire study period. Table 2 shows a time series history of the number of major exchange occurrences throughout the study period. The number of reported exchanges per year has generally increased with time. However, this is not particularly surprising given the increase in the number of banks in the Tenth District from 1,953 in 1965 to 2,276 in 1975.[4] Dividing the number of reported exchanges in a given year by the number of banks in the Tenth District that year results in a relative measure of bank stock trading activity over time. This measure indicates a slight increase in trading activity with time.

While it was more the exception than the rule, several banks, as shown in Table 3, had more than one major exchange of their stock take place during the 11½-year time span of the study. The greatest number of major exchanges in any one bank was seven. This happened in only one bank, while 241 banks had two major exchanges occur in their stock. In total, 976 separate banks were affected by major stock exchanges during the study period.

Table 1

Distribution of Exchanges by State: All Years

State	Number of Exchanges	Percent of Sample	Number of Exchanges as a Percent of the Average Number of Tenth District Banks in the State
Colorado	153	10%	52%
Kansas	**441**	**30**	**73**
Missouri	192	13	82
Nebraska	338	23	77
New Mexico	18	1	50
Oklahoma	273	19	65
Wyoming	54	4	74
Total	1,469	100%	

Table 2

Distribution of Exchanges by Year

Year	Number of Exchanges	Number of Exchanges as a Percent of the Number of Tenth District Banks in the State
1964	41	- (see footnote 4)
1965	91	5%
1966	91	5
1967	96	5
1968	122	6
1969	164	8
1970	157	8
1971	116	6
1972	133	6
1973	127	6
1974	175	8
1975	156	7
Total	1,469	

Not surprisingly, more than 90 percent of the exchanges involved banks whose asset size was less than $25 million, and 51 percent of the exchanges involved banks with assets under $5 million. Table 4 gives a complete percentage breakdown by asset size of the banks for which exchanges occurred during the study period.

Most of the exchanges have taken place in smaller market areas. This pattern is consistent with the fact that most exchanges took place in smaller banks. Over 50 percent of the ex-

Table 3

Number of Times During the Study Period That an Exchange Occurred for an Individual Bank: All Years

One time	631
Two times	241
Three times	73
Four times	22
Five times	7
Six times	1
Seven times	1
Total	976 banks

Table 4

Distribution of Bank Asset Size: All Years

Less than $2,000,000	23%
$2,000,000 to $5,000,000	28
$5,000,000 to $10,000,000	21
$10,000,000 to $25,000,000	20
$25,000,000 to $50,000,000	5
Greater than $50,000,000	3
	100%

Table 5

Distribution of Type of Exchange: All Years

Arms length sale	75%
Transfer to holding company owned by seller(s)	13
Sale to relative(s)	6
Transfer to heir(s) upon estate settlement	4
Gift	2
Other*	(less than 1)
Total	100%

* Other includes transfers to trust holdings, purchase of directors' or officers' qualifying shares, and new issues of stock.

Table 6

Relative Frequency of Debt Financing Ratios: All Years

Debt Financing Ratio*	Relative Frequency
0%	6%
0-20	2
20-40	4
40-60	11
60-80	24
80-100	24
100	16
Over 100	13

* Debt financing ratio is the percent of the purchase price that is debt financed.

Table 7

Percent of Annual Debt Financing Provided by Source

Year	Bank Financed	Seller Financed	Bank and Seller Financed	Third Party Financed	Bank and Third Party Financed
1964	96.2%	3.8%	0%	0%	0%
1965	97.8	0.4	0	1.8	0
1966	99.9	0.1	0	0	0
1967	94.5	0	5.5	0	0
1968	98.3	0.3	0	0	1.4
1969	99.7	0.3	0	0	0
1970	95.3	2.7	0	2.0	0
1971	95.2	3.6	1.2	0	0
1972	91.6	5.2	3.2	0	0
1973	84.7	6.2	8.8	0.3	0
1974	80.5	10.9	4.4	4.2	0
1975	61.8	23.8	12.2	0	2.2
Average for all years	86.2	8.0	4.3	1.0	0.5

changes took place in markets with under 10,000 population. In contrast, only 15 percent of the exchanges involved banks in markets with populations greater than 250,000 people.

Exchange Descriptions

The exchanges of bank stock that must be reported to federal bank regulatory authorities may be prompted by anything from estate settlements to arms length financial transactions. Of the exchanges where information was available on the nature of the exchange, most (75 percent) were bona fide arms length sales. As shown in Table 5, the remaining 25 percent of the exchanges were of some other kind, the majority of which would not even be classified as sales.

The consideration given in return for bank shares varies. Obviously, no financial consideration is involved in all the nonsales exchanges reported in Table 5, such as gifts and estate settlements. However, in those cases where financial consideration was extended, 85 percent involved cash only, 12 percent involved only securities (e.g., bank shares may be exchanged for holding company shares), and 3.0 percent involved a combination of cash and securities.

The acquisition of bank stock usually involves the use of debt. In 94 percent of the arms length exchanges where debt and purchase amount information were available, some debt was used in the acquisition of the stock. And, in 53 percent of all stock acquisitions, the ratio of debt to purchase amount equaled or exceeded 80 percent. Table 6 illustrates the relative frequency of various debt financing ratios. The fact that in 13 percent of the exchanges the amount of debt used *exceeded* the purchase amount is often explained by the pledging of bank shares already held, in addition to those being acquired (i.e., the exchange may provide an opportuning to refinance shares already owned and paid for). We may also consider the role of debt in bank stock financing from a different perspective. On average for all years, the ratio of the *total* dollar amount of debt used to purchase bank stock to the *total* dollar amount of bank stock purchased was about 87 percent. Thus, the typical sale of a large block of bank stock was largely financed with debt.

The mainstay of bank stock lending has been other banks, namely correspondent banks. On average, banks have been the source of 86.2 percent of all debt, sellers have provided 8.0 percent of the debt, and joint bank and seller financing has accounted for 4.3 percent of the debt. Examination of the sources of debt financing over time, however, reveals some interesting trends. Since 1969, seller financing has replaced a significant amount of bank financing both on its own and in conjunction with bank financing. This is shown in Table 7: in 1975, banks alone provided only 61.8 percent of all bank stock debt compared to the high 90 percent figures throughout the 1960s.

Throughout the study period, there have been more private (i.e., noncorporate) than corporate purchases of bank stock. On the average, 35 percent of all exchanges involved a corporate acquirer while 65 percent of the acquisitions involved private acquirers. Of the private acquisitions, approximately half have been by insiders (current bank stock owners) and half by outsiders.

Finally, the average exchange during the study period involved approximately 62 percent of the outstanding shares of the subject bank. A more detailed presentation of this "block size" data is shown in Table 8. Obviously, most exchanges were very large relative to the number of shares outstanding.

Prices

Prices that are paid in bank stock sales are of particular importance to bankers and investors. Although many object to stating prices in relation to book values, it is common practice within the industry. Prices paid for large blocks of bank stock in arms length transactions in the Tenth District have gradually increased from a mean of 1.40 times book value in 1964 to 1.73 times book value in 1975.[5] This trend is depicted in Figure 1.

It is also interesting to consider the distribution of price to book ratios over time. Table 9 shows a rather crude distribution with categories of price to book ratios of less than one, between one and two, and greater than two. The most striking feature of Table 9 is the large increase in the relative number of banks whose price/book ratio exceeded 2.0. In the mid-1960s, less than 10 percent of sales reported were more than twice book value. By the mid-1970s, however, about a third of all reported sales were more than two times book value. Table 9 also illustrates the considerable variability in price/book ratios. Taken together, Figure 1 and

Table 8

Distribution of Block Size* of Exchanges: All Years

Block Size	
0% to 20%	6%
20 to 40	14
40 to 60	26
60 to 80	25
80 to 100	29
	100%

(*) Block Size = number of shares exchanged / number of shares outstanding

Table 9

Distribution of Price/Book Ratios

	Percent of Price/Book Ratios That Are:		
Year	Less Than One	Between One and Two	Greater Than Two
1964	16%	76%	8%
1965	11	81	8
1966	11	80	9
1967	27	67	6
1968	13	72	15
1969	13	67	20
1970	15	66	19
1971	13	72	15
1972	10	62	28
1973	10	60	30
1974	6	58	36
1975	10	59	31

Figure 1

Average Price/Book Ratio: 1964-1975

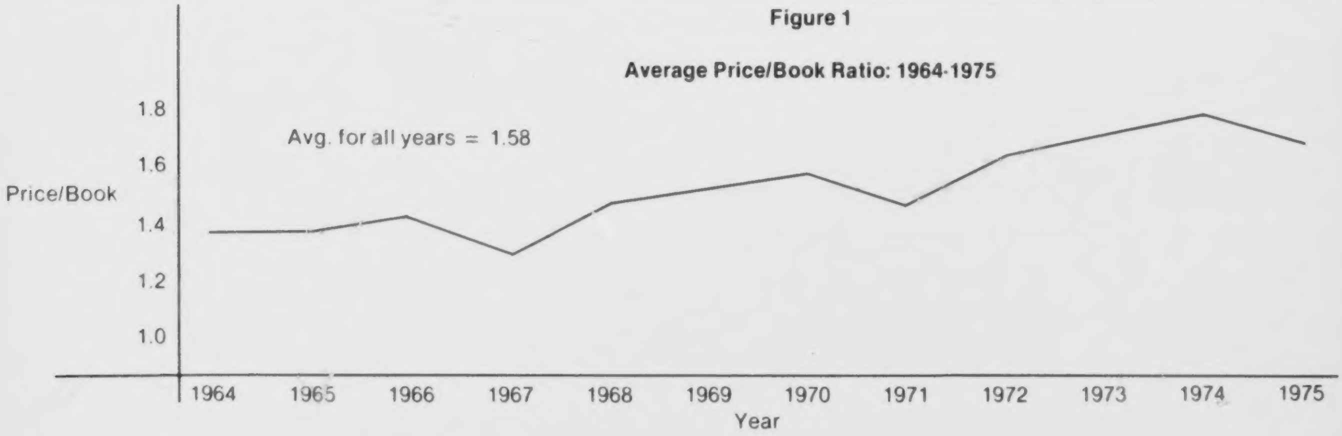
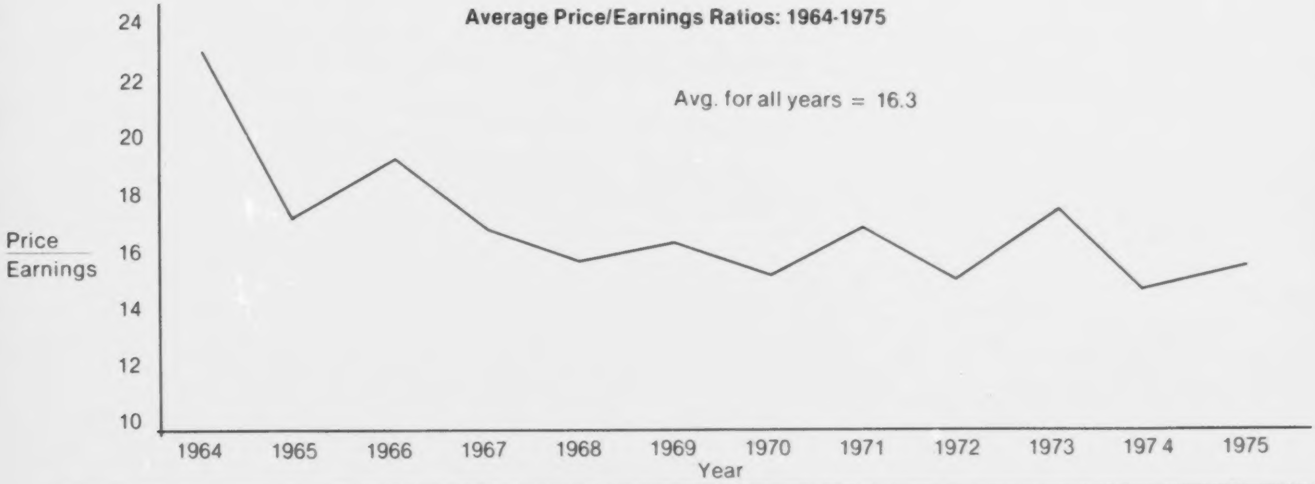


Table 10

Average Price/Book Ratios by State

Years	Colorado	**Kansas**	Missouri	Nebraska	Oklahoma	Wyoming
1964-67	1.62	**1.28**	1.54	1.38	1.41	1.33
1968-71	1.74	**1.36**	1.59	1.43	1.75	1.47
1972-75	1.68	**1.63**	1.66	1.72	2.03	1.83
All Years (average)	1.69	**1.45**	1.61	1.52	1.76	1.49

Figure 2



Average Price/Earnings Ratios: 1964-1975

Table 11

Average Price/Earnings Ratios by State

Years	Colorado	**Kansas**	Missouri	Nebraska	Oklahoma	Wyoming
1964-67	19.7	**17.0**	14.2	19.5	19.4	17.7
1968-71	18.7	**14.8**	18.3	14.4	17.4	15.0
1972-75	17.2	**15.9**	15.2	15.8	13.8	16.1
All Years (average)	18.6	**15.7**	16.2	16.2	16.7	15.9

Table 9 indicate that banks sell for widely different price/book values, both over time and within any given year.

Table 10 presents a further breakdown of price to book value ratios by state. The data in each state was aggregated in four-year segments in order that the average price to book value ratios would be computed from many observations. Even so, there were not sufficient transactions in New Mexico to warrant its inclusion in the table. As Table 10 indicates, price to book value ratios have increased fairly consistently in all states over the study period. Colorado is the only state in which price to book value ratios declined from one period to another (3.0 percent from the 1968-71 time period to the 1972-75 time period). Bank stocks in all but two states, Colorado and Missouri, had price to book value increases of at least 25 percent from the 1964-67 time period to the 1972-75 time period. In those two exceptions, price to book values increased only moderately.

Price/Earnings (P/E) ratios are also commonly used in discussing stock prices, but they entail certain problems when earnings are extremely low or negative. Hence, cases of negative earnings and extremely low earnings, which produce negative and extremely high P/E ratios, respectively, must be ignored if meaningful statistics are to be computed. For the results presented in Figure 2, banks with negative P/E ratios and P/E ratios over 50 (which together account for just under 15 percent of the arms length exchanges where all data is available) have been omitted.

As Figure 2 indicates, the average P/E ratio has dropped since the mid-1960s. In the last two years of the study, 1974 and 1975, the average P/E ratio has been below the average P/E ratio of 16.3 for the entire period.

With the exception of Missouri, where P/E ratios were higher during 1972-1975 than in 1964-67, P/E ratios have generally declined in the Tenth

District States. As evidenced in Table 11, P/E ratio declines were greatest in Oklahoma and least in Kansas. Again, New Mexico data were omitted for lack of sufficient observations.

The diversity in the price/book and P/E ratios among the banks in the states in the Tenth Federal Reserve District may reflect several environmental factors. While all states in the District are influenced economically by agriculture, the degree of agriculture's economic influence varies considerably from region to region. Also, the types of agricultural activity vary extensively. Economic and population growth has also varied widely in the District's states. For example, Colorado's population growth reached boom proportions during the 1960s when its population increased nearly 26 percent or almost double the national average. Finally, the bank regulatory environment varies significantly among the states. While none of the states permit branch banking, Colorado, Missouri, New Mexico, and Wyoming are active states in the bank holding company movement. Kansas, Nebraska, and Oklahoma are unit banking states.

One of the interesting features of the two price series—price/book and P/E—is that they have diverged over time. While price/book ratios have increased, P/E ratios have generally declined. This phenomenon is best explained with the aid of Table 11 and the identity:

$$\frac{\text{Price}}{\text{Book}} = \frac{\text{Price}}{\text{Earnings}} \times \frac{\text{Earnings}}{\text{Book}}$$

$$= \frac{\text{Price}}{\text{Earnings}} \times \left[\frac{\text{Earnings}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Book}}\right]$$

Notice that the bracketed expression is equivalent to the ratio of earnings/book, which, as shown in Table 12, has generally increased throughout the study period. This is, of course, consistent with the observed divergence of the two price measures. As seen in the identity, increasing price/book ratios and decreasing P/E ratios can only be explained by increasing earnings/book ratios. However, a more complete explanation of the diverging price measures is available from examination of the earnings/assets and the book/assets ratios. First, a few observations on the price ratios themselves are helpful.

Since the objective is to explain the relative movements of the price/earnings and price/book ratios over time, it simplifies matters when the time frame is broken into segments containing fairly consistent price movements. Reexamination of Figure 1 shows the increase in price to book ratios to be fairly consistent over the entire period but perhaps increasing slightly faster in more recent years. In the case of the price/earnings ratios (Figure 2), there appears to be a significant break sometime after 1967 with the ratios generally declining prior to that time and then flattening out over time (although there are still major fluctuations) thereafter.

As can be seen in Table 12, the earnings to assets ratio generally increased through 1969, then remained fairly flat on through 1975. The changes in the assets/book ratio seem to complement this pattern by remaining somewhat flat through 1968 then by increasing rather consistently through the remaining years. (It is not clear that the 1964 observations should be considered on an equal basis with the other observations since the 1964 data relies on observations in the last four months of the year.) Thus, it appears that the divergence in the two price ratio series is largely explained by improved earnings performance, as evidenced by increased earnings on assets in the mid-to-late 1960s, and by a declining capital structure, as evidenced by higher assets/book ratios in the late 1960s through 1975.

Conclusions

The intent of this paper has not been to explain relationships among the reported variables but, rather, to address the issue describing the "market" for thinly traded bank stocks. Data for our study are from banks in the Tenth Federal Reserve District. The descriptive statistics on what is being traded, who is trading, the nature of the trading activity, price data, financing data, and other variables tied with the transactions have been developed to meet that initial objective.

Probably the most surprising observation in this study in comparison with earlier studies is the significantly higher prices observed in bank stock transactions. Earlier studies observed price to book value ratios in the neighborhood of 1.0 and below, while this study shows the ratios to be easily half again that high. We expect that this change is due, in large part, to the large block sizes of our data base and to the fact that the exchanges we observed often produced ownership control changes. This and other topics will be the focal point of future studies.

Footnotes

[1] The Tenth Federal Reserve District includes Kansas, Nebraska, Wyoming, and Colorado, the northern third of New Mexico, all but the southeastern corner of Oklahoma, and the eastern counties of Missouri.

[2] Excluded transactions exist for a variety of reasons including erroneous reporting of data, mistakes in the data base which could not be easily corrected, and a lack of sufficient data on some observations to even begin a reconstruction of what occurred.

[3] The term "exchange" as used in this article refers to the sum of all transactions that are reported by a banker to the federal regulatory authorities on a single form. Certain ownership changes may involve several transactions that the report may or may not detail. Since it is often difficult to determine in those cases where a single transaction is reported if it is unique or an aggregation of several transactions, all multiple transactions detailed in a single report have been aggregated for this paper.

[4] Column 2 in Table 2 does not show a percentage result for 1964 because Public Law 88-593 was passed in mid-1964; thus, there was not a complete year of observations for that year.

[5] Book value is computed as stockholder equity and does not include any reserves for loan losses.

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Table 12

Average Yearly Earnings, Book, and Assets Ratios for All Banks

Year	Earnings/Assets	Assets/Book	Earnings/Book
1964	0.6%	8.7%	6.2%
1965	0.4	9.6	3.5
1966	0.7	9.6	6.6
1967	0.7	9.5	7.1
1968	0.8	9.7	7.8
1969	0.9	10.7	9.5
1970	0.8	10.6	9.1
1971	1.0	10.4	9.8
1972	1.0	11.1	11.0
1973	0.8	11.1	8.9
1974	1.0	11.8	11.7
1975	0.9	11.5	10.9
Average (all years)	0.8	10.3	8.5

Kansas in July

Due to continued delays in the reception of all the necessary data, the summaries and tables for Retail Sales Subject to Sales Tax by Business Classification and for Retail Sales Subject to Sales Tax by County are not included in this issue.

General Business

Nationally, the economic question is no longer if or when there will be a recession; rather, the question has become when did the recession start and how severe will it be. Sometime during the second quarter of 1979 appears to be the answer to when the recession started. As to the severity of the current recession, there are many different forecasts, but two stand out: mild and short, or deeper and longer than anyone wants. It is still too early to predict the depth of the recession, in part, because of the unknown policy variables in the hands of the President, Congress, and the Federal Reserve. The level of counter- cyclical spending increases or tax decreases that will come from the President and Congress can only be guessed at, especially when the added variable of next year's presidential election is added. Throughout the summer, the Federal Reserve has driven up interest rates, yet the money supply—a difficult term to define at present—continues to expand. The increase in loan demands at a time of rising interest rates is explained by the need for businesses to finance expanding inventories, and the expanding inventories experienced in July will mean less production in the future which, in turn, means future unemployment.

The general business indicators for Kansas suggest that the pressures of the recession are already at work in Kansas. Average weekly earnings dropped from June to July of 1979 to the February 1979 level. When the rate of inflation as measured by the Consumer Price Index is taken into account, it becomes readily apparent that Kansas workers faced declining purchasing power in July. Added to this problem is the sudden increase in initial claims for unemployment—up a dramatic 72.7 percent in July over June. On the more positive side, the work week rose from June to July as did the number of new incorporations, both in-state and out-of-state, for profit.

As the nation moves through this current recession, Kansas can expect to suffer less than most states. One reason is the current agricultural situation which is particularly bright for Kansas farmers. Because agriculture is so important to the Kansas economy, a good farm year can offset some of the ill effects of a recession. A second reason is the booming economy of Wichita, particularly the boom in the aircraft industry. Finally, it should be noted that during the last recession (1973-1974), Kansas suffered less than other states, in part, for precisely these two reasons. (See Table I.)

Employment

The ambiguity in the July figures for Kansas employment make an evaluation of Kansas's current position and near-term future difficult. When July of this year is compared to July of last year, the employment picture looks good. Employment in most industries was up over last year and total employment was up 3.2 percent. However, when June and July are compared a different picture emerges. For the first time in a year, total employment in Kansas dropped. Some of the decrease in employment can be explained as simply a seasonal phenomenon, but part of the drop seems to indicate at least a partial slow-down in the Kansas economy, especially when the national situation and other Kansas economic data are considered. (See Table III.)

The two categories of employment showing the largest decreases from June to July of 1979 were manufacturing (– 2.0 percent) and State and local government (– 7.3 percent). The drop in manufacturing employment was located almost solely in the durable goods sector (– 3.6 percent), specifically in the transportation equipment industry (– 6.8 percent). However, employment in the aircraft and parts industry, a subcategory of the transportation equipment industry, rose slightly in July. The two contrary movements suggest the influence of the damage to the General Motor Assembly Plant in Kansas City and the continued strength of the aircraft industry, particularly in the Wichita area.

Two industries that showed significant increases in employment in July were mining (1.5 percent) and contract construction (1.1 percent). The increase in mining employment was in the subcategory of oil and gas extraction (1.9 percent) and may, in part, reflect the increased desirability of Kansas energy resources due to price increases for oil this spring. The increases in contract construction employment is a combination of a seasonal phenomenon and a catching-up for the relatively inactive spring of this year.

Only two major categories of employment—federal and State and local government—had a decline in employment from July of 1978 to July of 1979. Manufacturing employment was up 4.9 percent during this period. Both the durable and the nondurable goods sectors had employment increases, and the only subcategories of manufacturing employment which had employment drops were apparel (−2.8 percent) and other nondurable goods (−0.9 percent). The past year represents a period of strong, sustained growth in Kansas employment. (See Table II.)

Regional Employment

The July regional employment figures for Kansas demonstrate the same type of ambiguity as the State employment figures. With only a few exceptions, the number of employed persons dropped from June to July of 1979, but from July of 1978 to July of 1979 the number of employed persons increased. Statewide, the unemployment rate rose slightly in July over the June level but was still significantly below the unemployment rate of last July. In only four of the regions—the Lawrence SMSA, the Kansas portion of the Kansas City SMSA, the Pittsburg area, and the Coffeyville area—did the unemployment rate increase from June to July, and in only two regions—the Lawrence SMSA and the Kansas portion of the Kansas City SMSA—did the unemployment rate increase from July of 1978 to July of 1979.

The regional areas which did not experience a decline in the number of employed persons were the Wichita SMSA, the Emporia area, and the Salina area. The Wichita SMSA has had a strong employment picture for the past few years and, at present, seems to suffer from a lack of skilled labor, at least in some industries. The Salina area has also shown a steady growth in the number of employed persons and a decline in the number of unemployed persons through all of 1979. The July increase in employment in Emporia does not reflect the continuation of a past trend. In fact, Emporia suffered a large drop in the number of employed persons in June. (See Table III.)

Farm Prices

The Kansas July figures for field crop prices and livestock prices reflect the changes in the national farm picture, which forced the United States Department of Agriculture to revise its projected 1979 farm income. Early in the summer, the Department of Agriculture lowered its 1979 farm income forecast from $33 billion to $32 billion, and then, more recently, it lowered the forecast farther to about $30 billion. These downward revisions were the result of nationally lower livestock prices. However, field crop prices—the other major side of the income picture—held up well; in fact, July field crop prices nationally were significantly higher than they were last year despite a near-record grain crop in the United States this year—a reflection of reduced world- wide production. The cause of these higher field crop prices was, and still is, the foreign demand for United States grain, particularly from the Soviet Union.

The prices Kansas farmers received for field crops rose significantly in the spring and early summer months. From April to July of 1979, wheat prices went up 27 percent, corn prices went up 16 percent, sorghum prices went up 26 percent, and soybean prices rose nearly 4.0 percent despite an estimated 16 percent increase in national soybean production this year. Only hay prices fell in July, but, in contrast to the price a year ago, July 1979 hay prices were up 34 percent. All of the field crop prices were up when compared to those of a year ago, although it must be remembered that the prices are not adjusted for inflation. Once inflation is taken into account, it can be said that the prices Kansas farmers received in July for grain were good (especially so when the record level of production is considered) but that the price increases were not as good as the simple percentage change of market prices indicates. (See Table VI.)

Financial Activity

The pattern that banking data have followed throughout the first seven months of 1979 shows the influence of Federal Reserve policy shifts. In the late fall of 1978, in order to protect the dollar, the Federal Reserve instituted a sharp rise in the discount rate and, in general, a tight money policy. Kansas banks responded by cutting loans back by approximately 10 percent in January and, then, by keeping them at that new level until April, despite double-digit inflation. However, in the early spring, the Federal Reserve began easing the money supply, and Kansas banks responded in April with a surge of new loans which continued through June. The July figures indicate that the surge due to the easing of the money supply in the spring is dampening. Statewide, there was only a slight increase in the amount of loans, and, in each of the three major banking centers, there was a drop in the amount of loans. It is doubtful that this pattern will continue; the money supply has steadily increased through the summer at a faster rate than was expected even though interest rates have been driven to an all-time high by the Federal Reserve. The data for the rest of the summer will probably show loans increasing through the summer to pay for the inventory build-up which usually occurs at the beginning of a recession.

As noted last month in *Kansas Business Review*, time and savings deposits have increased more over the year than have demand deposits because of the regulation change which allows automatic transfer between savings and checking accounts. But, as also noted last month, this increase in time and savings accounts only appears when the figures for the month are compared to those of a year ago. From June to July of 1979, demand deposits increased more or decreased less than time and savings deposits statewide, in Kansas City, Kansas, and in Wichita. Only in Topeka did demand deposits decrease more than time and savings deposits. It seems that the distortion caused by the change in the banking regulation has already been absorbed. (See Table VII.)

The July figures for mortage loans made represent yet another month of decline. This decrease is a continuation of a trend which began in January of this year and which has accompanied the decline in the housing market. Net new savings also declined when compared to a year ago. (Because of the bulge in net new savings every third month due to interest payments being credited to savings accounts, the most meaningful comparison is with the same month a year ago.) Therefore, these July figures evidence no basic change in the situation faced by savings and loan institutions since January. (See Table VIII.)

TABLE I
GENERAL BUSINESS INDICATORS

	July 1979	June 1979	% change	Avg. Prior 6 mos.	Annual Avg. 1978
Manufacturing					
Average Work Week (hrs.)	40.90	40.80	0.20	40.40	40.70
Average Weekly Earnings (dollars)	269.94	273.77	– 1.40	268.15	240.99
Initial Claims for					
Unemployment Insurance	12,631.00	7,312.00	72.70	8,400.00	8,082.00
New Incorporations					
Domestic for Profit	381.00	374.00	– 1.90	371.00	336.00
Foreign for Profit	102.00	90.00	13.30	88.00	88.00

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

Kansas Secretary of State

TABLE II
NON-FARM WAGE AND SALARY EMPLOYMENT BY PLACE OF WORK
(thousands)

Industry	July 1979	June 1979	% change	July 1978	% change
All Industries	943.8	958.3	– 1.5	914.9	3.2
Manufacturing	197.7	201.8	– 2.0	188.4	4.9
Durable Goods	128.5	133.3	– 3.6	121.4	5.8
Stone, Clay, Glass	10.3	10.3	0.0	9.7	6.2
Primary Metals	4.0	4.0	0.0	3.7	8.1
Fabricated Metal Products	14.0	14.1	– 0.7	13.7	2.2
Machinery (incl. elec.)	34.7	34.7	0.0	31.9	8.8
Transportation Equipment	51.9	55.7	– 6.8	49.2	5.5
Aircraft & Parts	46.0	45.4	1.3	38.0	21.1
Other Durable Goods	13.6	13.5	0.7	13.2	3.0
Nondurable Goods	69.2	69.5	– 0.4	67.0	3.3
Food & Kindred Products	23.9	23.8	0.4	23.0	3.9
Meat Products	8.6	8.6	0.0	8.5	1.2
Apparel	3.5	3.6	– 2.8	3.6	– 2.8
Printing & Publishing	17.0	17.0	0.0	15.9	6.9
Chemicals	8.4	8.5	– 1.2	8.2	2.4
Petroleum & Coal	4.9	4.9	0.0	4.7	4.3
Other Nondurable	11.5	11.7	– 1.7	11.6	– 0.9
Mining	13.4	13.2	1.5	12.8	4.7
Oil & Gas Extraction	11.0	10.8	1.9	10.6	3.8
Contract Construction	56.3	55.7	1.1	51.4	9.5
Trans., Comm., Elec., Gas	67.9	67.9	0.0	64.2	5.8
Wholesale Trade	63.6	63.0	1.0	62.8	1.3
Retail Trade	162.1	163.2	– 0.7	159.2	1.8
Finance, Insurance, Real Estate	47.8	47.5	0.6	46.0	3.9
Services	165.8	165.3	0.3	158.9	4.3
Federal Government	25.9	26.1	– 0.8	26.4	– 1.9
State & Local Government	143.3	154.6	– 7.3	144.8	– 1.0

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS

Area	July 1979	June 1979	% change	July 1978	% change
Kansas—Statewide					
Civilian Labor Force	1,235,200	1,243,600	– 0.7	1,175,800	5.1
Employed	1,195,200	1,205,200	– 0.8	1,133,500	5.4
Farm	82,200	83,000	– 1.0	82,300	– 0.1
Non-Farm	1,113,000	1,122,200	– 0.8	1,051,200	5.9
Unemployed	40,000	38,400	4.2	42,300	– 5.4
Rate	3.2%	3.1%		3.6%	
Lawrence SMSA					
Civilian Labor Force	32,000	32,700	– 2.1	30,400	5.3
Employed	30,800	31,600	– 2.5	29,300	5.1
Farm	1,000	1,100	– 9.1	1,100	– 9.1
Non-Farm	29,800	30,500	– 2.3	28,200	5.7
Unemployed	1,200	1,100	9.1	1,100	9.1
Rate	3.8%	3.4%		3.6%	
Kansas portion of Kansas City SMSA					
Civilian Labor Force	264,100	270,600	– 2.4	259,100	1.9
Employed	254,000	261,300	– 2.8	249,700	1.7
Farm	1,800	1,800	0.0	1,800	0.0
Non-Farm	252,200	259,500	– 2.8	247,900	1.7
Unemployed	10,100	9,300	8.6	9,400	7.4
Rate	3.8%	3.4%		3.6%	
Topeka SMSA					
Civilian Labor Force	95,500	97,000	– 1.5	94,200	1.4
Employed	92,100	93,200	– 1.2	90,800	1.4
Farm	2,400	2,400	0.0	2,500	– 4.0
Non-Farm	89,700	90,800	– 1.2	88,300	1.6
Unemployed	3,400	3,800	– 10.5	3,400	0.0
Rate	3.6%	3.9%		3.6%	
Wichita SMSA					
Civilian Labor Force	226,200	225,900	0.1	208,150	8.7
Employed	219,800	218,900	0.4	200,550	9.6
Farm	3,300	3,400	– 2.9	3,300	0.0
Non-Farm	216,500	215,500	0.5	197,250	9.8
Unemployed	6,400	6,800	– 5.9	7,600	– 15.8
Rate	2.8%	3.0%		3.7%	
Barton Co.—Great Bend Area					
Civilian Labor Force	17,675	17,750	– 0.4	17,500	1.0
Employed	17,275	17,325	– 0.3	17,125	0.9
Farm	1,200	1,225	– 2.0	1,225	– 2.0
Non-Farm	16,075	16,100	– 0.2	15,900	1.1
Unemployed	400	425	– 5.9	375	6.7
Rate	2.3%	2.4%		2.1%	

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS (Continued)

Area	July 1979	June 1979	% change	July 1978	% change
Crawford Co.—Pittsburg Area					
Civilian Labor Force	16,225	16,350	– 0.8	16,150	0.5
Employed	15,600	15,725	– 0.8	15,475	0.8
Farm	1,100	1,100	0.0	1,125	– 2.2
Non-Farm	14,500	14,625	– 0.9	14,350	1.0
Unemployed	625	625	0.0	675	– 7.4
Rate	3.9%	3.8%		4.2%	
Lyon Co.—Emporia Area					
Civilian Labor Force	17,450	17,375	0.4	17,175	1.6
Employed	17,075	17,000	0.4	16,725	2.1
Farm	1,075	1,075	0.0	1,100	– 2.3
Non-Farm	16,000	15,925	0.5	15,625	2.4
Unemployed	375	375	0.0	450	– 16.7
Rate	2.1%	2.2%		2.6%	
Montgomery Co.—Coffeyville Area					
Civilian Labor Force	21,275	21,475	– 0.9	21,000	1.3
Employed	20,725	20,950	– 1.1	20,425	1.5
Farm	775	800	– 3.1	800	– 3.1
Non-Farm	19,950	20,150	– 1.0	19,625	1.7
Unemployed	550	525	4.8	575	– 4.3
Rate	2.6%	2.4%		2.7%	
Reno Co.—Hutchinson Area					
Civilian Labor Force	32,200	32,625	– 1.3	31,925	0.9
Employed	31,400	31,775	– 1.2	30,925	1.5
Farm	1,725	1,750	– 1.4	1,750	– 1.4
Non-Farm	29,675	30,025	– 1.2	29,175	1.7
Unemployed	800	850	– 5.9	1,000	– 20.0
Rate	2.5%	2.6%		3.1%	
Riley Co.—Manhattan Area					
Civilian Labor Force	20,575	21,025	– 2.1	19,375	6.2
Employed	19,950	20,350	– 2.0	18,750	6.4
Farm	1,375	1,400	– 1.8	1,400	– 1.8
Non-Farm	18,575	18,950	– 2.0	17,350	7.1
Unemployed	625	675	– 7.4	625	0.0
Rate	3.0%	3.2%		3.2%	
Saline Co.—Salina Area					
Civilian Labor Force	26,400	26,275	0.5	26,075	1.2
Employed	25,675	25,500	0.7	25,225	1.8
Farm	925	925	0.0	925	0.0
Non-Farm	24,750	24,575	0.7	24,300	1.9
Unemployed	725	775	– 6.5	850	– 14.7
Rate	2.7%	2.9%		3.3%	

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE IV
RETAIL SALES SUBJECT TO SALES TAX BY BUSINESS CLASSIFICATION

(millions of dollars)

DATA NOT AVAILABLE

TABLE V
RETAIL SALES SUBJECT TO SALES TAX BY COUNTY

(thousands of dollars)

DATA NOT AVAILABLE

TABLE VI
PRICES RECEIVED BY KANSAS FARMERS
(dollars)

Items	July 1979	June 1979	% change	July 1978	% change	Annual Avg. 1978
Prices Received by Farmers						
Field Crops						
Wheat (bu.)	3.85	3.72	3.5	2.70	42.6	2.72
Corn (bu.)	2.79	2.77	0.7	2.38	17.2	2.21
Sorghum (cwt.)	4.28	4.25	0.7	3.39	26.3	3.29
Hay (ton)	49.50	49.00	1.0	37.00	33.8	40.88
Soybeans (bu.)	7.30	7.22	1.1	6.21	17.6	6.17
Livestock & Products						
Beef Cattle (cwt.)	67.50	68.40	– 1.3	54.10	24.8	50.72
Calves (cwt.)	84.50	86.90	– 2.8	58.80	43.7	58.78
Hogs (cwt.)	38.60	39.60	– 2.5	45.80	– 15.7	47.66
Lambs (cwt.)	62.50	66.00	– 5.3	55.60	12.4	59.47
Sheep (cwt.)	16.90	20.00	– 15.5	15.40	9.7	13.33
Milk (cwt.)	11.90	11.80	0.8	10.20	16.7	10.73
Prices Paid by Farmers						
Soybean Meal (cwt.)	13.50	12.50	8.0	11.00	22.7	10.92
Bran (cwt.)	7.40	7.50	– 1.3	6.10	21.3	6.27
Beef Conc. (cwt.)	9.50	9.50	0.0	8.70	9.2	8.58
16% Dairy Feed (ton)	158.00	152.00	3.9	140.00	12.9	138.17
Hog Conc. (cwt.)	14.00	14.00	0.0	12.50	12.0	12.31
Laying Feed (ton)	187.00	177.00	5.6	161.00	16.1	160.08

Source: Kansas Crop and Livestock Reporting Service
Kansas State Board of Agriculture
U.S. Department of Agriculture

TABLE VII
COMMERCIAL BANKING ACTIVITY

(millions of dollars)

	July 1979	June 1979	% change	July 1978	% change
Kansas—Statewide					
Loans	7,757	7,756	0.0	7,170	8.2
Demand Deposits	4,017	3,975	1.1	3,856	4.2
Time & Saving Deposits	7,847	7,876	– 0.4	7,027	11.7
Loan-to-Deposit Ratio	65.4%	65.4%		65.9%	
Kansas City (Wyandotte)					
Loans	475	479	– 0.8	497	– 4.4
Demand Deposits	238	232	2.6	251	– 5.2
Time & Saving Deposits	543	550	– 1.3	484	12.2
Loan-to-Deposit Ratio	60.8%	61.3%		67.6%	
Topeka (Shawnee)					
Loans	522	523	– 0.2	457	14.2
Demand Deposits	283	298	– 5.0	260	8.8
Time & Saving Deposits	508	509	– 0.2	445	14.2
Loan-to-Deposit Ratio	66.0%	64.8%		64.8%	
Wichita (Sedgwick)					
Loans	1,227	1,243	– 1.3	1,148	6.9
Demand Deposits	752	767	– 2.0	694	8.4
Time & Saving Deposits	1,032	1,095	– 5.8	930	11.0
Loan-to-Deposit Ratio	68.8%	66.8%		70.7%	

Source: Research Department
Federal Reserve Bank of Kansas City
Institute for Economic and Business Research

THE CONFERENCE ON

THE ECONOMIC OUTLOOK '80 FOR KANSAS

THE UNIVERSITY OF KANSAS
NOVEMBER 2, 1979
THE KANSAS UNION

Program

9:00 Lobby (5th Level)	**Registration**
Parlors (5th Level)	**Coffee and Doughnuts**
10:00 Woodruff (5th Level)	**Opening Remarks** Dr. Ralph Christoffersen Vice Chancellor of Academic Affairs, The University of Kansas
	Introduction of the Governor Chancellor Archie R. Dykes, The University of Kansas
	The Governor's Address to the Conference The Honorable John Carlin
	The University and Kansas Chancellor Archie R. Dykes
	The Kansas Economy Dr. Darwin W. Daicoff, Director, Institute for Economic and Business Research, The University of Kansas Dr. M. Jarvin Emerson, Professor of Economics, Kansas State University
	Questions from the Audience Moderator: Dr. Ralph Christoffersen
12:00 Ballroom (5th Level)	**Lunch**
	Introductions Dr. Ralph Christoffersen
1:00	**The U.S. Economy: A Review and Forecast** Mr. George L. Perry, The Brookings Institution
2:15	**Transportation Deregulation in Kansas: Pro and Con** Moderator: Senator Robert Talkington, Chairman, Special Committee on Transportation Resource Persons: Pete Loux, Chairman, Kansas Corporation Commission Dr. Joe Lee, Director, Transportation Research Group, The University of Kansas Panel Members: William Drenner, Executive Vice President, First National Bank, Topeka Frank J. Becker, President, Kansas Motor Carriers Association Pat Hubbell, Legislative Representative, Kansas Railroad Association
3:30	**Adjourn**

Registration can be completed by calling *toll-free* 1-800-532-6772 from 7 a.m. to 7 p.m. Monday through Friday.

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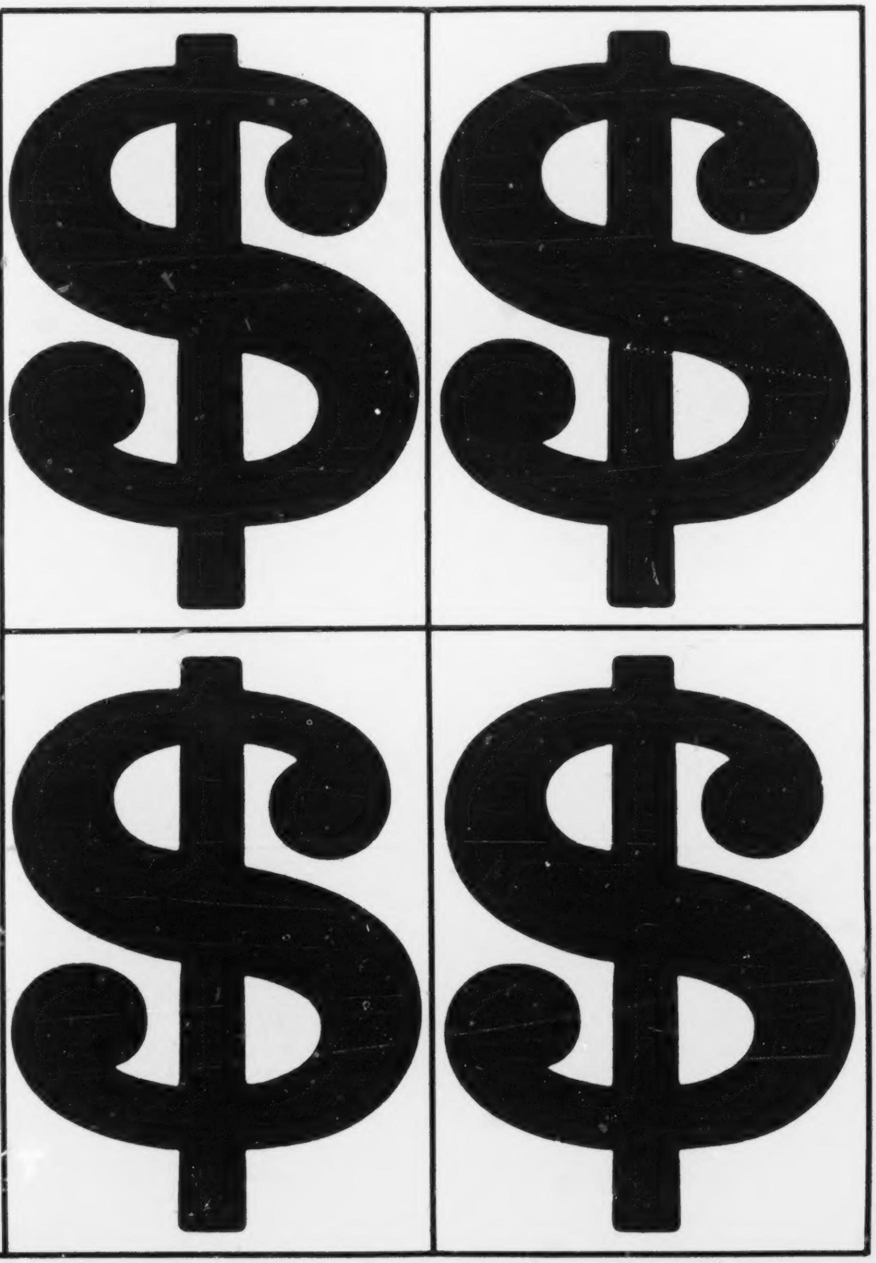
Robert H. Glass

Kansas in August

Business Highlights from Across the State



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Kansas Price Indexes

Robert H. Glass

Robert Glass received his M.A. in Economics at the University of Kansas in 1978 and is currently a research assistant for the Institute for Economic and Business Research. He would like to acknowledge the help of Institute staff persons, Laura Shoffner, Sue Malloy, Beth Teson, and Regina Beard, in the writing of this article.

Introduction

One of the major structural changes in the United States' economy in the last fifteen years has been the presence of "sustained inflation." Of course, during the twentieth century, there have been other periods of inflation in the United States. However, these periods have been caused primarily by the United States' involvement in war. As a result, when the economy readjusted to peacetime, inflation subsided. But the American experience with the Vietnam War and the period following has been significantly different. The price level since the mid 1960s has not increased at a steady rate, but it has accelerated. The Consumer Price Index (CPI) has more than doubled since 1967, and it has increased more than 50 percent since January 1974. Recent trends indicate that Americans will continue to face inflation for the near future.

If inflation struck evenly across the board—if every price and cost were to increase equally—then inflation would be more of a nuisance than a serious economic problem. However, although inflation does mean a continuous rise in the price level, it does not mean all prices rise by the same amount. Some markets, for example nonunion labor markets as compared to those of union labor, are more flexible than other markets in responding to changes in economic conditions. Some prices that are determined outside the market place, such as the price of products produced by regulated industries such as public utilities, tend to be more rigid. There is also the problem of long-term contracts, which do not have an inflation factor in their pricing mechanism.

Examples of the disparity in the price changes of various goods abound. From 1967 to 1978, the CPI for medical care rose 119.4 percent while the CPI for entertainment rose only 76.2 percent. From 1967 to May 1979, the CPI for food rose 134.3 percent while the CPI for alcoholic beverages rose only 71.5 percent. Not only can there be a disparity in the price changes of various goods, but there can also be a disparity in the changes in price levels for different geographic areas. From 1967 to May 1979, the CPI for the Denver-Boulder area rose 131.1 percent, while from 1967 to April 1979 the CPI for the Kansas City area rose 111.5 percent. The effect of these divergent trends in wage and price increases is an erratic redistribution of wealth that is not voted upon nor approved by the citizenry. In essence, certain segments of the populace become the victims of socio-economic changes; economic power and control shifts from the individual and becomes a seemingly arbitrary system to which the individual is subservient.

It is to one aspect of this problem—the geographic disparity in price changes—that this article addresses itself. Specifically, how have Kansas and the larger trade centers in Kansas been affected by inflation?

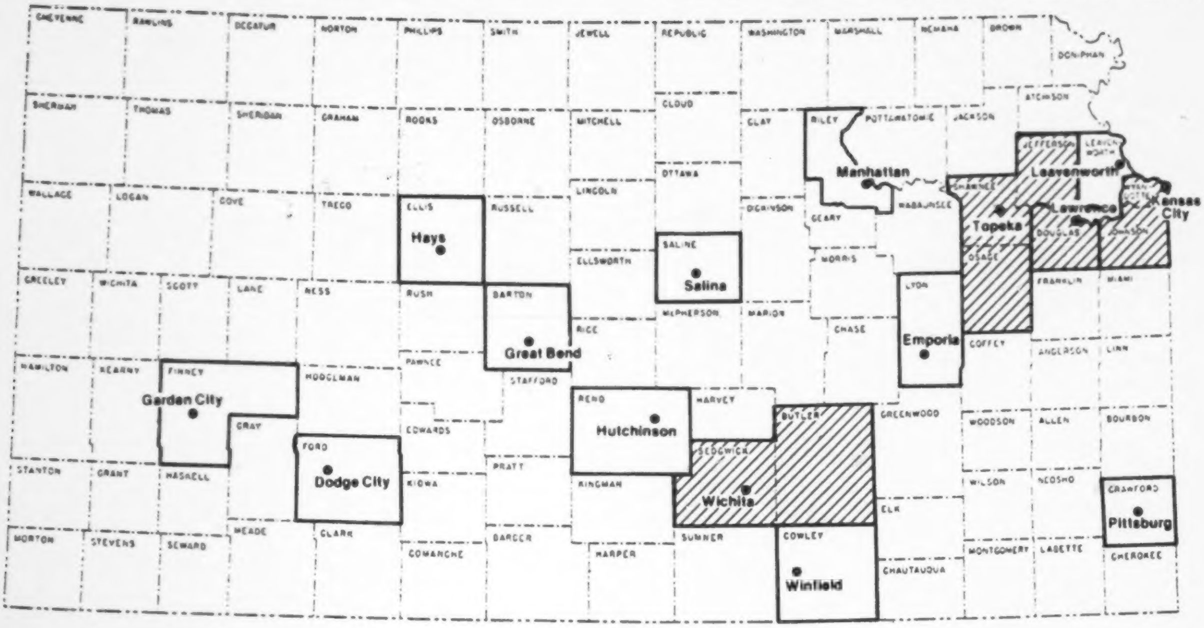
Methodology

A published price index for Kansas or for any part of Kansas does not exist, except for the Bureau of Labor Statistics' (BLS) CPI for the Kansas City SMSA, which includes Johnson and Wyandotte Counties. However, a methodology has been developed for estimating state price indexes and can be used for smaller areas if certain conditions can be met. The primary condition is that the area be relatively economically independent, which is why, in this study, a price index was developed for only a few areas in Kansas and for the State of Kansas. The areas chosen for study are outlined in Figure I: four SMSAs plus the other eleven largest trade centers in Kansas.

For the multi-county SMSAs, data are available at both the county and total SMSA level. In the case of the Kansas City SMSA, a price index was not developed for only the Kansas portion—Johnson and Wyandotte Counties—of the SMSA. There are two reasons for this decision. Conceptually, it is difficult to imagine a price index for only part of an SMSA. The definition of an SMSA implies a cultural and economic unity: people living within the SMSA do not simply buy goods in the area near them; instead, they tend to shop throughout large portions of the SMSA. Thus, a price index for only Johnson County retail establishments is inadequate if the desire is to measure the prices paid by Johnson County residents. Also, a methodological problem is caused by the interflow of purchasing, which violates the assumption of economic independence. This independence is not the case with portions within an SMSA.

The major problem concerning the eleven trade centers is the question of whether they are economically independent. Table I provides a comparison between the retail sales for the trade center and the retail sales for the county in which the trade center is located. In all but the case of Arkansas City, the trade center dominates the

Figure I Kansas SMSAs and Trade Centers **Trade Centers Are Outlined Areas; SMSAs Are Lined Areas**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retail trade of the county in which the trade center is located. This dominance points to the market pull of the trade center, which suggests that the trade center is not dependent upon the surrounding county in terms of retail sales. Table II provides an indication of the strength of the retail trade base within the counties containing the trade centers compared to the surrounding areas. If the percentage of per capita retail sales to per capita personal income for a particular center is below the same percentage for the State, then there is some above-average leakage of retail sales to surrounding areas. Only Riley and Leavenworth counties seem to have any significant leakage.[1] Thus, of the eleven large trade centers in Kansas, in addition to the SMSAs, all except Manhattan (Riley County), Leavenworth (Leavenworth County), and Arkansas City (Cowley County) show strong evidence of economic independence.

The fundamental methodology for developing the price indexes can be found in the paper "A State Price Index" by Victor R. Fuchs, Robert T. Michael, and Sharon R. Scott.[2] Three critical assumptions underlie the authors' price index:

1) a composite set of goods sold at retail has significant cross-region variation in price;
2) there is an insignificant amount of cross-region buying of this set of goods; and
3) the ratio of the consumption of these goods to a composite of all other commodities including personal taxes and savings is constant across regions.[3]

The type of index developed is called a Laspeyres index (L) and is defined for region j as:

(1)

$$L_j = \frac{P_{1j} C_1 + P_{2j} C_2}{P_1 C_1 + P_2 C_2}$$

Wherein:

C_1 = the composite for which prices vary (personal taxes and savings are included).
C_2 = the composite good for which prices remain constant.
P_i = national price of the i^th composite good.
P_{ij} = region j's price of the i^th composite.

Through the use of appropriate scaling, application of the fundamental assumptions, and algebraic manipulation, Fuchs, Michael, and Scott derived the following equation:

(2)

$$L_j = \frac{I_j}{C_{2j}} \frac{C_2}{I}$$

I = national personal income.
I_j = region j's personal income.

For the purpose of empirically estimating equation (2), per capita personal income was substituted for I and I_j, and per capita retail sales—excluding sales of food stores, gasoline service stations, and eating and drinking places; building materials; hardware; and farm equipment dealers—was used for C_2 and C_{2j}.[4] The resulting

Table I
Percentage of City to County Retail Sales

Area	1967	1972	1977
Barton			
Great Bend	78.44	81.94	87.32
Cowley			
Arkansas City	49.29	54.38	51.50
Crawford			
Pittsburg	65.66	68.53	74.50
Ellis			
Hays	88.07	88.78	93.16
Finney			
Garden City	92.13	98.11	98.19
Ford			
Dodge City	88.23	94.86	96.93
Leavenworth			
Leavenworth	84.45	86.21	84.09
Lyon			
Emporia	92.84	95.88	96.04
Reno			
Hutchinson	83.39	88.92	88.73
Riley			
Manhattan	91.79	91.12	94.82
Saline			
Salina	96.61	98.26	98.56

SOURCE: *Census of Retail Trade*, 1967, 1972, 1977, Bureau of Census, United States Department of Commerce.

price index provides a basis for measuring the percentage change in regional prices relative to the national percentage change in price level. Therefore, the comparison of a region's relative change in price level to the national CPI makes available an estimation of a regional CPI.

Results

The ensuing price indexes along with the percentage changes in the indexes from 1967 to 1972 and from 1972 to 1977 can be found in Table III. For 1967, the index was arbitrarily set at 100.00 for each city (1967 also was the benchmark year for the national CPI). This designation does not mean that in 1967 all of these regional areas had the same price level. The purpose of this index is to measure the relative *change* in price level between areas, not to measure the relative price level for each area. To this end, Figures II and III show the geographical pattern of price changes as measured by the index.

There are several aspects of the results which lend some credibility to the index; for example, the second time period had a significantly greater rate of price change than the first period. Also, that all of the indexes from the various areas are within 10 percent of each other suggests some consistency. However, only one price index can be compared to the price indexes developed in this article—the Bureau of Labor Statistics' CPI for the Kansas City SMSA. The CPI for the Kansas City SMSA also is arbitrarily set at 100.00 for 1967. By 1972, it had risen to 124.0, and, by 1977, it had risen to 178.3; these figures represent a 24.0 percent change from 1967 to 1972 and a 43.8 percent change from 1972 to 1977. The CPI figures are very close to those developed in this article for the Kansas City SMSA (See Table III), and, more importantly, when compared to the national CPI, both sets of figures move in the same direction. These correlations do not provide conclusive evidence of the viability of the price indexes in this article, but they increase the confidence in these numbers.

Table II
Percentage of Per Capita Retail Sales to Per Capita Personal Income

Area	1967	1972	1977
State of Kansas	50.07	47.23	46.34
Barton Great Bend	56.71	58.41	59.50
Cowley Arkansas City	55.88	46.18	45.42
Crawford Pittsburg	53.04	53.59	47.09
Ellis Hays	63.74	77.68	81.00
Finney Garden City	85.62	64.67	67.85
Ford Dodge City	73.02	65.97	63.08
Leavenworth Leavenworth	34.71	38.12	36.50
Lyon Emporia	63.27	61.35	48.71
Reno Hutchinson	53.55	57.50	55.34
Riley Manhattan	40.08	39.03	42.29
Saline Salina	61.73	68.65	61.01

Sources: *Census of Retail Trade;* Regional Economic Information System, Bureau of Economic Analysis, United States Department of Commerce.

Table III
Regional Price Indexes

Area	1967 Price Index	1972 Price Index	Percentage Change	1977 Price Index	Percentage Change
United States Consumer Price Index	100.00	125.3	25.3	181.5	44.9
State of Kansas	100.00	125.0	25.0	179.3	43.4
SMSAs					
Lawrence	100.00	121.3	21.3	175.4	44.6
Topeka	100.00	123.9	23.9	179.4	44.8
Wichita	100.00	121.6	21.6	175.0	43.9
Kansas City (Mo. and Kans.)	100.00	124.9	24.9	180.1	44.2
Trade Centers					
Barton Great Bend	100.00	124.2	24.2	175.8	41.5
Cowley Arkansas City	100.00	131.2	31.2	187.1	42.6
Crawford Pittsburg	100.00	126.3	26.3	189.4	50.0
Ellis Hays	100.00	118.8	18.8	168.2	41.6
Finney Garden City	100.00	129.5	29.5	183.3	41.5
Ford Dodge City	100.00	125.9	24.9	185.4	48.4
Leavenworth Leavenworth	100.00	121.8	21.8	178.2	46.3
Lyon Emporia	100.00	124.9	24.9	188.9	51.2
Reno Hutchinson	100.00	122.6	22.6	181.0	47.6
Riley Manhattan	100.00	123.4	23.4	173.7	40.8
Saline Salina	100.00	120.9	20.9	182.0	50.5

Figure II Price Index for Kansas SMSAs and Trade Centers: 1972

Above National Average ////

Below National Average : : : :

Areas Outlined in Black Are SMSAs

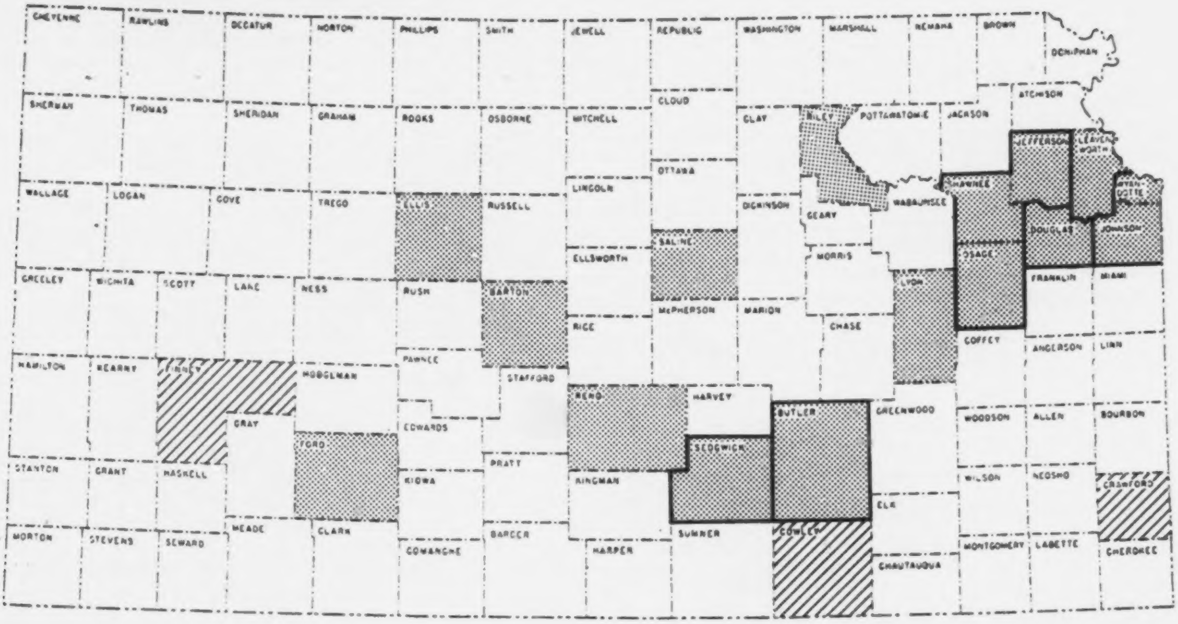
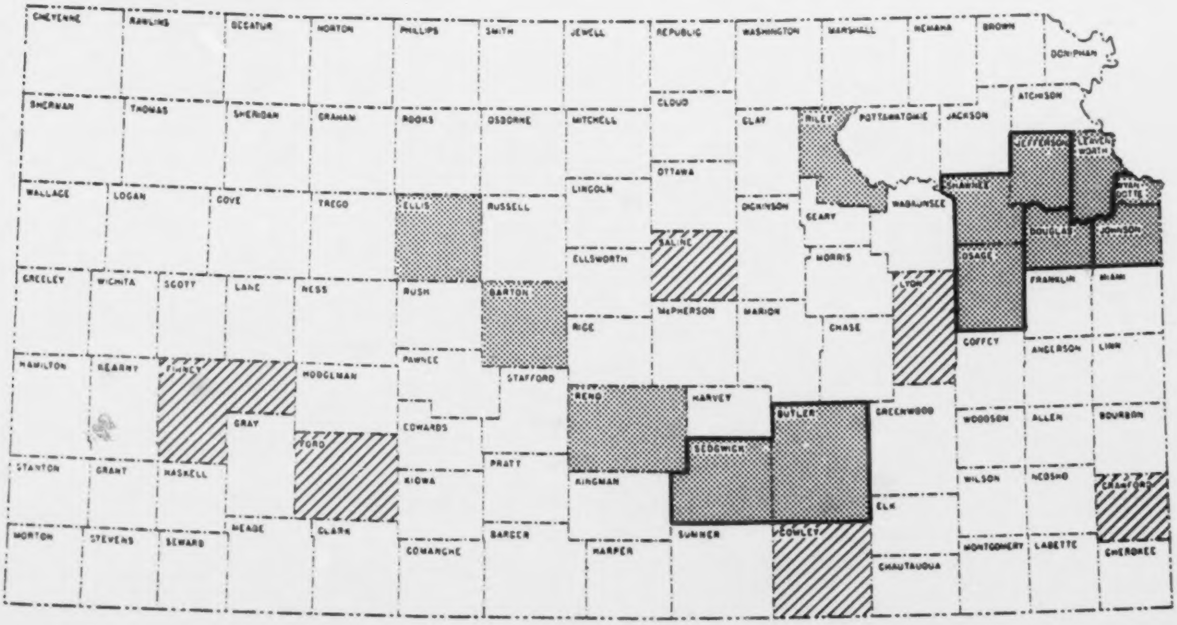

CHEYENNE
RAWLINS
DECATUR
NORTON
PHILLIPS
SMITH
JEWELL
REPUBLIC
WASHINGTON
MARSHALL
NEMAHA
BROWN
DONIPHAN
SHERMAN
THOMAS
SHERIDAN
GRAHAM
ROOKS
OSBORNE
MITCHELL
CLOUD
CLAY
RILEY
POTTAWATOMIE
JACKSON
ATCHISON
JEFFERSON
LEAVEN-WORTH
WALLACE
LOGAN
GOVE
TREGO
ELLIS
RUSSELL
LINCOLN
OTTAWA
DICKINSON
GEARY
WABAUNSEE
SHAWNEE
WYAN-DOTTE
DOUGLAS
JOHNSON
SALINE
ELLSWORTH
MORRIS
OSAGE
FRANKLIN
MIAMI
GREELEY
WICHITA
SCOTT
LANE
NESS
RUSH
BARTON
LYON
RICE
McPHERSON
MARION
CHASE
COFFEY
ANDERSON
LINN
HAMILTON
KEARNY
FINNEY
HODGEMAN
PAWNEE
STAFFORD
RENO
HARVEY
GRAY
EDWARDS
BUTLER
GREENWOOD
WOODSON
ALLEN
BOURBON
FORD
SEDGWICK
PRATT
STANTON
GRANT
HASKELL
KIOWA
KINGMAN
WILSON
NEOSHO
CRAWFORD
ELK
MEADE
CLARK
MORTON
STEVENS
SEWARD
COMANCHE
BARBER
HARPER
SUMNER
COWLEY
CHAUTAUQUA
MONTGOMERY
LABETTE
CHEROKEE

Figure III Price Indexes for Kansas SMSAs and Trade Centers: 1977

Above National Average ////

Below National Average : : : :

Areas Outlined in Black are SMSAs


CHEYENNE
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WABAUNSEE
SHAWNEE
WYAN-DOTTE
DOUGLAS
JOHNSON
SALINE
ELLSWORTH
MORRIS
OSAGE
FRANKLIN
MIAMI
GREELEY
WICHITA
SCOTT
LANE
NESS
RUSH
BARTON
LYON
RICE
McPHERSON
MARION
CHASE
COFFEY
ANDERSON
LINN
HAMILTON
KEARNY
FINNEY
HODGEMAN
PAWNEE
STAFFORD
RENO
HARVEY
GRAY
EDWARDS
BUTLER
GREENWOOD
WOODSON
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BOURBON
FORD
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HASKELL
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CRAWFORD
ELK
MEADE
CLARK
MORTON
STEVENS
SEWARD
COMANCHE
BARBER
HARPER
SUMNER
COWLEY
CHAUTAUQUA
MONTGOMERY
LABETTE
CHEROKEE

One of the more interesting results found in Table III is the difference in the patterns of change for the price indexes of the Kansas City and the Topeka SMSAs and for the price indexes of the Lawrence and the Wichita SMSAs. Most of this difference developed during the first five-year period and results from varying economic conditions. From 1967 to 1977, the Topeka SMSA showed a remarkably steady growth. The Kansas City SMSA had nearly the same record with only two slight downturns, 1971 and 1975. In each case, its economy rebounded strongly. Wichita, on the other hand, suffered a severe recession in 1970-71. Although it rebounded strongly in 1972, its level of nonagricultural employment was below the 1967 level. Since 1972, the Wichita economy has had steady economic growth. The Lawrence SMSA experienced unusual growth in the late sixties and early seventies due to increased University enrollment. Unfortunately, this type of growth does not tend to significantly increase an area's personal income because of the relatively low income of students. Since the early seventies, Lawrence has expanded its industrial base and, in general, has had a good growth record. Thus, the steady growth rates of the Kansas City and Topeka SMSAs from 1967-72 imply a steady increase in demand that kept prices higher, whereas the Wichita and Lawrence SMSAs did not experience this steady growth and experienced less upward pressure on prices during the earlier period.

A second result found in Table III and illuminated in Figures II and III is the geographic pattern of the differences in the inflation rate throughout the State of Kansas. Most obvious is the fact that all of the SMSAs had rates of inflation lower than the national average for each of the five-year periods. As for the eleven trade centers, in 1972, there were only three (Garden City, Arkansas City, and Pittsburg) with price indexes higher than the national average. As Figure II demonstrates, these were trade centers some distance from large urban areas. By 1977, the number of trade centers with price indexes higher than the national average had risen to six with the addition of Dodge City, Salina, and Emporia (See Figure III). Two changes in the economic environment appear to explain the increase in the number of areas with above-average inflation and their location. Since 1972, the Kansas economy has been growing at a rate faster than the national growth rate: In 1972, per capita personal income in Kansas was 0.5 percent above the national average, while in 1977 it was 1.6 percent above the national average. The greater growth rate means additional pressure on demand which, in ordinary circumstances, means higher prices. In addition to this general pressure on prices in Kansas, there was a dramatic increase in energy prices in 1973-74 that carried through the entire period. The higher energy prices raised the price of transportation more than the general price level. Thus, in areas where shipping costs were a larger share of the cost of an item, the effect of the higher transportation costs was felt. This phenomenon, in part, explains the geographic pattern of differing price changes in Kansas.

Applications

The price indexes developed in this paper can serve many purposes. One possible use is the analysis of the changing purchasing power of wages in various areas in Kansas. The Bureau of Labor Statistics publishes *Area Wages Surveys* for the Kansas City and Wichita SMSAs on an annual basis. Within these surveys are wage indexes for several occupational groups—the most general and continuously available are for the categories of "All Industries" and "Manufacturing" labor. Table IV has these wage indexes for the years 1972 and 1977 (1967 is again used as a benchmark) in current dollars and, by using the price indexes, in 1967 dollars as an adjustment for inflation. Several conclusions can be drawn from the data: (1) even though Kansas City had a higher rate of inflation, real wages (wages adjusted for inflation) rose faster in Kan-

Table IV
Kansas City and Wichita Wage Levels

	Kansas City SMSA					Wichita SMSA				
	Dec.	Sept. 1972 Index		Sept. 1977 Index		Dec.	April 1972 Index		April 1977 Index	
Occupational Category	1967 Index	1972 Dollars	1967 Dollars	1977 Dollars	1967 Dollars	1967 Index	1972 Dollars	1967 Dollars	1977 Dollars	1967 Dollars
All Industries										
Office Clerical	100.0	131.1	105.0	188.9	104.9	100.0	121.8	100.2	173.8	99.3
Industrial Nurses	100.0	414.3	113.1	213.2	118.4	100.0	126.9	104.4	182.7	104.4
Skilled Maintenance Trades	100.0	142.3	113.9	217.2	120.6	100.0	125.6	103.3	188.3	107.6
Unskilled Plant Workers	100.0	143.8	115.1	202.2	112.3	100.0	125.0	102.8	180.9	103.4
Manufacturing										
Office Clerical	100.0	128.0	102.5	184.4	102.4	100.0	120.0	98.7	172.1	98.3
Industrial Nurses	100.0	144.5	115.7	219.5	121.9	100.0	126.4	103.9	181.5	103.7
Skilled Maintenance Trades	100.0	136.1	109.0	209.6	116.4	100.0	122.6	100.8	180.7	103.3
Unskilled Plant Workers	100.0	136.3	109.1	211.2	117.3	100.0	129.8	106.7	180.6	103.2

SOURCE: *Wage Area Survey*, Kansas City and Wichita, 1967, 1972, 1977, Bureau of Labor Statistics, United States Department of Labor sas City than in Wichita for the 1967-1972 period; and (2) from 1972 to 1977, real wages again rose more, but at a declining rate, in Kansas City than in Wichita. Because the Wichita economy was depressed in the early 1970s and the Kansas City economy was not, the first conclusion appears valid; and, because both economies grew at about the same pace from 1972 to 1977, the second conclusion appears to be confirmed as well. One other conclusion concerns the various occupational groups: between cities, there seems to be little difference in the relative wage position of the various occupational groups.

A second possible use of these price indexes is the analysis of the changes in urban residential property value. By using the *Kansas Assessment Sales Ratio Study* and the *Statistical Report of Property Assessment and Taxation,*[5] an estimate of the increase in urban residential property value can be obtained for the counties within the areas covered by the various price indexes developed in this study. The first column for each year in Table V contains the increases in property value unadjusted for inflation, and the second column contains the increase in property value adjusted for inflation using the price indexes. (Because some counties reassessed their property value after 1967, a consistent percentage increase from 1967 to 1972 is not available for all counties.) The adjustment for inflation certainly alters the picture of changing urban residential property values that is presented by the unadjusted data. In terms of constant dollars, urban residential property values in six of the eight counties where the data is available showed declining rather than rising values for the 1967 to 1972 period. The situation improved from 1972 to 1977 for the owners of urban residential property but was not as great an improvement as the unadjusted percentage changes indicate.

Another use of the price indexes is the analysis of the changing costs of government. The data in Table VI indicate the extent to which city budgets have had to expand to keep up with inflation. For example, general fund expenditures in Great Bend have increased 95.56 percent from 1967 to 1977; however, if inflation is taken into account (if the 1977 expenditures are expressed in terms of 1967 dollars), the percentage change from 1967 to 1977 is only 11.24 percent. Table VI provides this type of data for sixteen cities in Kansas.

Table V

Changes in Residential Property Value Adjusted for Inflation

Area	Percentage Change in Urban Residential Property Values 1967-1972		Percentage Change in Urban Residential Property Values 1972-1977		Percentage Change in Urban Residential Property Values 1967-1977	
	Actual	Deflated	Actual	Deflated	Actual	Deflated
SMSAs						
Lawrence SMSA						
Douglas	14.3	− 7.0	50.0	5.4	71.4	− 4.0
Topeka SMSA						
Shawnee	—	—	81.8	37.0	—	—
Osage	—	—	53.4	8.6	—	—
Jefferson	—	—	—	—	—	—
Wichita SMSA						
Sedgwick	13.0	− 8.6	64.3	20.4	85.7	10.7
Butler	—	—	100.0	56.1	—	—
Kansas City SMSA (Kansas Portion)						
Johnson	—	—	63.6	19.4	—	—
Wyandotte	—	—	28.6	− 15.6	—	—
Other Areas						
Barton						
Great Bend	16.7	− 7.5	140.0	98.5	180.0	104.2
Cowley						
Arkansas City	21.7	− 9.5	77.9	35.3	115.4	28.3
Crawford						
Pittsburg	—	—	70.0	20.0	—	—
Ellis						
Hays	—	—	77.8	36.2	—	—
Finney						
Garden City	—	—	64.3	22.8	—	—
Ford						
Dodge City	14.3	− 10.6	75.0	26.6	100.0	14.6
Leavenworth						
Leavenworth	19.1	− 2.7	61.5	15.2	92.3	14.1
Lyon						
Emporia	—	—	76.9	25.7	—	—
Reno						
Hutchinson	—	—	91.7	44.1	—	—
Riley						
Manhattan	36.8	13.4	26.7	14.1	73.3	− 0.4
Saline						
Salina	—	—	63.6	13.1	—	—

SOURCES: *Statistical Report of Property Assessment and Taxation* and *Kansas Assessment Sales Ratio Study*, 1967, 1972, 1977, Division of Property Valuation, Kansas Department of Revenue.

Table VI
General Fund Receipts and Expenditures for 1967 and 1977 in Unadjusted and Constant Dollars

		1977		Percentage Change	
	1967	1977 Dollars	1967 Dollars	1977 Dollars	1967 Dollars
Lawrence					
Receipts	1,511,169	4,177,601	2,381,757	176.45	57.61
Expenditures	1,154,729	4,118,072	2,347,818	256.63	103.32
Topeka					
Receipts	4,516,059	12,369,808	6,895,099	173.91	52.68
Expenditures	4,341,328	12,275,857	6,842,730	182.77	57.62
Wichita					
Receipts	12,195,680	22,949,062	13,113,750	88.17	7.53
Expenditures	11,056,035	22,445,524	12,826,014	103.02	16.01
Kansas City, Kansas					
Receipts	1,848,984	4,637,275	2,574,833	150.80	39.26
Expenditures	1,446,908	4,442,487	2,466,678	207.03	70.48
Overland Park					
Receipts	1,385,212	8,137,945	4,518,570	487.49	226.20
Expenditures	1,185,541	7,241,413	4,020,773	510.81	239.15
Great Bend					
Receipts	731,557	1,508,794	858,245	106.24	17.32
Expenditures	686,670	1,342,852	763,852	95.56	11.24
Arkansas City					
Receipts	684,245	1,412,198	754,782	106.39	10.31
Expenditures	645,816	1,323,512	707,382	104.94	9.53
Pittsburg					
Receipts	855,594	1,523,603	804,437	78.08	– 5.98
Expenditures	806,967	1,495,445	789,570	85.32	– 2.16
Hays					
Receipts	396,856	996,916	592,687	151.20	49.35
Expenditures	393,573	939,277	558,429	138.65	41.89
Garden City					
Receipts	618,252	1,233,189	672,771	99.46	8.82
Expenditures	577,835	1,129,618	616,267	95.49	6.65
Dodge City					
Receipts	533,320	1,672,688	902,205	213.64	69.17
Expenditures	523,926	1,586,509	855,722	202.81	63.33
Leavenworth					
Receipts	999,796	2,372,296	1,331,255	137.28	33.15
Expenditures	968,666	2,294,391	1,287,537	136.86	32.92
Emporia					
Receipts	1,036,912	2,700,896	1,429,802	160.47	37.89
Expenditures	985,258	2,859,161	1,513,584	190.19	53.62
Hutchinson					
Receipts	1,809,500	4,365,678	2,411,977	141.26	33.30
Expenditures	1,754,001	4,546,370	2,511,807	159.20	43.20
Manhattan					
Receipts	1,120,881	2,174,156	1,251,673	93.97	11.67
Expenditures	919,712	2,116,657	1,218,571	130.14	32.49
Salina					
Receipts	1,753,528	3,485,279	1,914,988	98.76	9.21
Expenditures	1,726,263	3,433,778	1,806,691	98.91	9.29

Conclusion

The data developed in this article is essentially descriptive in nature and purpose. It reveals certain facts and aspects of the influence of inflation in Kansas. In no way does this article reveal the mechanisms which cause inflation, and there has been no attempt to suggest ways of limiting inflation. Inflation is a national problem with manifestations in Kansas; it is not a Kansas problem, but it is a problem to Kansans. And it is to this last definition of the problem that this article has addressed itself. Specifically, this article has provided a measure of the various rates of inflation in the SMSAs and major trade centers in Kansas through the development of price indexes.

It should be noted that there is little evidence that can be used to absolutely evaluate the price indexes generated in this article; however, the evidence that does exist corroborates the results, and, as well, the results have an intuitive appeal.

The price indexes have a variety of possible applications. In this article, three applications are sketched: the measurement of the influence of inflation on wages, on housing values, and on the cost of local government. In conclusion, if the first step in coping with an economic problem is determining its magnitude, then this article represents a small step in helping Kansans adjust to inflation.

Footnotes

[1] Two counties—Crawford and Lyon Counties—had a large drop in their percentage of per capita retail sales to per capita personal income from 1972 to 1977. This phenomenon does not seem to reflect an accurate picture of the retail sales situation in these counties. Other sources—for example, retail sales tax figures—indicate that the growth in retail sales is continuing at about the same rate as the growth in personal income.

[2] *National Bureau of Economic Research Working Paper Series*, No. 320, February 1979.

[3] *Ibid.*, p. 1.

[4] *Census of Retail Trade*, 1967, 1972, and 1977, Bureau of the Census, United States Department of Commerce; and the Regional Economics Information System, Bureau of Economic Analysis, United States Department of Commerce.

[5] Division of Property Valuation, Kansas Department of Revenue, 1967, 1972, 1977. Assessed values are adjusted by the assessment ratios to produce estimates of current property values.

Kansas in August

General Business

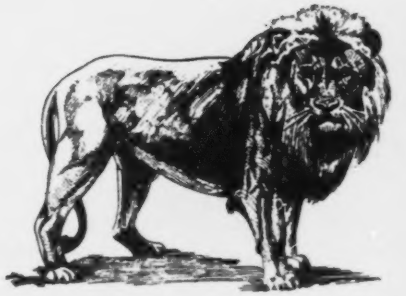
There is no doubt that the 1970s will go down in economic history as a hazardous period for economic forecasters. The long expected recession—some forecasters have been predicting a recession since 1977—has been forestalled for yet another quarter. (However, the Federal Reserve seems determined to take the uncertainty out of predicting a recession with its latest policy changes.) Although the United States experienced a significant drop in GNP during the second quarter of 1979, the initial report of third-quarter GNP showed a growth, on an annual basis, of 2.4 percent from the second quarter. When the second and third quarters are combined, the result is no appreciable growth in GNP from the first through the third quarter of 1979. This situation is not a recession, but, given the continuing high rate of inflation, it qualifies as a classic example of stagflation.

The Kansas economy continues to show more strength than the national economy. Retail sales for July grew substantially, the unemployment rate dropped in August below 3.0 percent, and initial claims for unemployment dropped 45.9 percent after surging in July. If initial claims for unemployment are averaged for June, July, and August and then compared to the same period a year previous, the summer of 1979 had only a 6.95 percent increase in initial claims for unemployment over the previous summer. The average weekly earnings increase in August was 1.1 percent over the July figure. However, since last March, Kansas average weekly earnings have increased only 0.4 percent, well below the inflation rate. During the last six months, Kansas wage earners have faced significant declines in their real wages. (See Table I.)

Employment

A review of the data provided by the Research and Analysis Section of the Kansas Department of Human Resources discloses that the employment situation in Kansas continues to look bright. Nonfarm wage and salary employment by place of work dropped only 0.1 percent from July to August, and that drop was far less than the usual decline in employment experienced during the late summer. An indication of how good the Kansas employment situation remained in August is the fact that employment was 3.7 percent above the August 1978 figure while, through most of 1979, employment had been running about 3.0 percent above the same month a year previous. A second indication of the strength of the Kansas employment situation is the drop in the statewide unemployment rate from 3.2 percent in July to 2.8 percent in August. The August unemployment rate was 0.3 percent below the unemployment rate for August of the prior year. (See Table III.)

Among the categories of employment, three deserve special mention. Although employment in apparel manufacturing grew from July to August by 2.9 percent, employment in this industry remained 5.3 below the level of employment in August 1978. Throughout 1979, employment in apparel manufacturing has generally been running below the level of employment for the same month a year ago. Contract construction employment grew 1.6 percent from July to August, and it continued to run substantially above 1978 employment figures for the same month—August 1979 was 11.1 percent above August 1978. This phenomenon is surprising because of the weakness of the housing market. Finally, employment in the aircraft and aircraft parts industry grew again in August, and, in August 1979, there were 18.7 percent more people employed in this industry than in August 1978. As pointed out before, one of the chief beneficiaries of the phenomenal growth in employment in this industry has been the city of Wichita. (See Table II.)



Regional Employment

The regional employment figures reported by the Kansas Department of Human Resources generally followed the pattern of the statewide employment figures: a decline in the size of the civilian labor force, a smaller percentage decline in the number of employed persons, and a drop in the unemployment rate. The exceptions were the Lawrence SMSA and the Kansas portion of the Kansas City SMSA—both experienced growth in the size of the civilian labor force and a larger percentage increase in the number of employed persons—and the Emporia area, which experienced an increase in its unemployment rate. (See Table III.)

Retail Sales (for July)

The monthly average for total retail sales based on the retail sales tax for the quarter ending in July was up 8.9 percent over the monthly average for the preceding three-month period. Although 8.9 percent is a significant increase in retail sales, this 8.9 percent—due to the exemption of residential housing from the retail sales tax on public utilities which began July 1, 1979—underestimates the increase in retail sales during the last quarter. If the estimate for public utility sales is ignored, then retail sales during this same period rose 11.3 percent—more than three times the inflation rate.

Nine of the 13 major categories of retail sales showed a growth in retail sales over this same period of time. However, these three-month averages are not necessarily representative of the current situation. If the averages for the past two months are compared to the averages for the previous two months (if the averages of July and June are compared to the averages for April and May), then a different retail sales picture emerges: apparel sales are up 7.9 percent instead of being down 8.5 percent, automobile sales are up only 5.3 percent instead of 29.3 percent, food sales are up 2.8 percent instead of being down 0.4 percent, furniture sales are down 3.2 percent instead of being up 4.9 percent, and general merchandise sales are up 9.4 percent instead of being down 9.6 percent. After slumping in the spring, retail sales surged at the beginning of the summer. (See Table IV.)

County Retail Sales (for July)

The surge in retail sales is certainly reflected in the county retail sales figures. For the three-month period ending with July 1979, only one of the 105 counties in Kansas—Sherman County—experienced a decline in retail sales compared to the previous quarter. However, a different picture emerges if the quarter ending July 1979 is compared to the quarter ending July 1978. Only 26 counties experienced a double-digit growth in retail sales over this period—approximately the minimum amount of growth necessary to compensate for inflation. The two counties with the largest retail sales—Johnson and Sedgwick Counties—were among these 26 counties. There were 22 counties which experienced a decline in retail sales during this period with ten of those counties located in the western portion of Kansas. (See Table V.)

Farm Prices

The prices Kansas farmers received for field crops all declined from July to August, but the August 1979 prices were still substantially above the August 1978 prices received by Kansas farmers. Corn prices showed the largest decline over the month with sorghum and wheat following close behind. The changes in livestock prices were more mixed. Beef cattle, calves, hogs, and lambs prices all fell from July to August while sheep and milk prices rose slightly during the same period. Only hog prices are below last year's August price, and hog prices have been down all year.

The declining crop prices faced by Kansas farmers are reflected in a decline in several of the feed prices paid by Kansas farmers. Soybean meal, bran, and laying feed all declined from July to August although the August prices were still substantially above the August 1978 prices. Beef concentrate continued its climb in price while the prices of dairy feed and hog concentrate remained unchanged. Except for soybean meal, all feed prices have had double-digit increases in their price level since last August. (See Table VI.)

Financial Activity

The banking data for Kansas and the regional banking centers do not show the full effects of the late summer and early fall attempt on the part of the Federal Reserve to tighten money. Loans statewide rose 1.2 percent from July to August and only failed to rise in one banking center, Kansas City, Kansas. During the same period, demand deposits fell statewide and in each banking center, while time and savings deposits fell only for Kansas City, Kansas banks.

A comparison of August 1979 with August 1978 Kansas banking data indicates that the trends noted before continue to manifest themselves. In all banking centers and statewide, time and savings deposits have grown much more rapidly than demand deposits. Loans statewide are up 8.0 percent from a year ago, and only Kansas City, Kansas banks had a decline in loans. In the near future, due to the change in Federal Reserve policy, these trends should change. (See Table VII.)

The August data for savings and loan institutions reveals once again the effects of a declining housing market and Federal Reserve policy. Since January 1979, savings and loan institutions have experienced a sharp descent in activity. Although mortgage loans made increased slightly in August 1979, net new savings dropped 64.9 percent from July to August and were 80.6 percent below August 1978. The Federal Reserve's policy which pushed interest rates to record highs and placed more uncertainty in the financial markets has had a notably adverse effect on these institutions. (See Table VIII.)

Consumer Prices

Consumer prices for August in the Kansas City area increased 2.3 percent over prices in June and were 15.6 percent higher than prices in August 1978. Both of these increases are greater than the increases for the nation as a whole. Nationally, in August prices rose 1.0 percent from June prices and were 11.8 percent above prices a year ago. All the major consumption categories except personal care registered price increases for the two-month period ending in August. Personal care prices decreased 0.9 percent. Apparel and upkeep and housing prices increased the most (up 4.0 percent and 3.0 percent, respectively), with the increases in the other categories ranging down to a 0.6 percent increase in the price for food and beverages.

Over the year, housing and transportation prices increased almost 20 percent (19.5 percent), and medical care prices followed close behind with an annual increase of 12.2 percent. Prices in these same categories nationally rose only 2/3, 4/5, and 3/4 as much as the prices in the Kansas City area. Entertainment prices increased the least with a 4.4 percent rise. (See Table IX.)

TABLE I
GENERAL BUSINESS INDICATORS

	Aug. 1979	July 1979	% change	Avg. Prior 6 mos.	Annual Avg. 1978
Manufacturing					
Average Work Week (hrs.)	40.80	40.90	– 0.20	40.60	40.70
Average Weekly Earnings (dollars)	272.95	269.94	1.10	269.87	240.99
Initial Claims for					
Unemployment Insurance	6,829.00	12,631.00	– 45.90	8,071.00	8,082.00
New Incorporations					
In-State for Profit	411.00	381.00	7.90	375.00	336.00
Out-of-State	93.00	102.00	– 8.80	91.00	88.00

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

Kansas Secretary of State

TABLE II
NON-FARM WAGE AND SALARY EMPLOYMENT BY PLACE OF WORK

(thousands)

Industry	Aug. 1979	July 1979	% change	Aug. 1978	% change
All Industries	944.3	944.4	– 0.0	910.4	3.7
Manufacturing	197.5	197.8	– 0.2	186.2	6.1
Durable Goods	128.8	128.6	0.2	119.2	8.1
Stone, Clay, Glass	10.3	10.3	0.0	9.7	6.2
Primary Metals	4.0	4.0	0.0	3.8	5.3
Fabricated Metal Products	13.7	14.0	– 2.1	13.7	0.0
Machinery (incl. elec.)	34.2	34.6	– 1.2	32.2	6.2
Transportation Equipment	53.1	52.1	1.9	46.6	13.9
Aircraft & Parts	46.4	46.0	0.9	39.1	18.7
Other Durable Goods	13.5	13.6	– 0.7	13.2	2.3
Nondurable Goods	69.1	69.2	– 0.1	67.0	3.1
Food & Kindred Products	24.3	24.0	1.2	23.1	5.2
Meat Products	9.2	8.8	4.5	8.5	8.2
Apparel	3.6	3.5	2.9	3.8	– 5.3
Printing & Publishing	16.6	17.0	– 2.4	15.4	7.8
Chemicals	8.5	8.4	1.2	8.4	1.2
Petroleum & Coal	4.8	4.8	0.0	4.7	2.1
Other Nondurable	11.3	11.5	– 1.7	11.6	– 2.6
Mining	13.6	13.4	1.5	12.9	5.4
Oil & Gas Extraction	11.2	10.9	2.8	10.7	4.7
Contract Construction	57.2	56.3	1.6	51.5	11.1
Trans., Comm., Elec., Gas	67.3	67.6	– 0.4	63.8	5.5
Wholesale Trade	62.5	63.5	– 1.6	61.7	1.3
Retail Trade	162.0	161.6	0.2	160.4	1.0
Finance, Insurance, Real Estate	47.7	47.8	– 0.2	46.1	3.5
Services	166.7	165.8	0.5	159.0	4.8
Federal Government	25.6	25.9	– 1.2	25.9	– 1.2
State & Local Government	143.4	144.7	– 0.9	142.9	0.3

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS

Area	Aug. 1979	July 1979	% change	Aug. 1978	% change
Kansas—Statewide					
Civilian Labor Force	1,218,800	1,235,700	– 1.4	1,183,600	3.0
Employed	1,184,400	1,195,700	– 0.9	1,147,200	3.2
Farm	76,500	82,200	– 6.9	77,600	– 1.4
Non-Farm	1,107,900	1,113,500	– 0.5	1,069,600	3.6
Unemployed	34,000	40,000	– 15.0	36,400	– 6.6
Rate	2.8%	3.2%		3.1%	
Lawrence SMSA					
Civilian Labor Force	32,800	32,200	1.9	30,800	6.5
Employed	31,800	31,000	2.6	29,700	7.1
Farm	1,000	1,000	0.0	1,000	0.0
Non-Farm	30,800	30,000	2.7	28,200	9.2
Unemployed	1,000	1,200	– 16.7	1,100	– 9.1
Rate	3.0%	3.7%		3.6%	
Kansas portion of Kansas City SMSA					
Civilian Labor Force	266,100	265,500	0.2	254,700	4.5
Employed	256,400	255,500	0.4	243,800	5.2
Farm	1,700	1,800	– 5.6	1,700	0.0
Non-Farm	254,700	253,700	0.4	242,100	5.2
Unemployed	9,700	10,000	– 3.0	10,900	– 11.0
Rate	3.6%	3.8%		4.3%	
Topeka SMSA					
Civilian Labor Force	94,600	95,600	– 1.0	93,500	1.2
Employed	91,500	92,200	– 0.8	90,100	1.6
Farm	2,200	2,400	– 8.3	2,300	– 4.3
Non-Farm	89,300	89,800	– 0.6	87,800	1.7
Unemployed	3,100	3,400	– 8.8	3,400	– 8.8
Rate	3.3%	3.6%		3.6%	
Wichita SMSA					
Civilian Labor Force	224,900	226,200	– 0.6	212,500	5.8
Employed	219,000	219,800	– 0.4	205,600	6.5
Farm	3,100	3,300	– 6.1	3,200	– 3.1
Non-Farm	215,900	216,500	– 0.3	202,400	6.7
Unemployed	5,900	6,400	– 7.8	6,900	– 14.5
Rate	2.6%	2.8%		3.2%	
Barton Co.—Great Bend Area					
Data Not Available					

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS (Continued)

Area	Aug. 1979	July 1979	% change	Aug. 1978	% change
Crawford Co.—Pittsburg Area					
Data Not Available					
Lyon Co.—Emporia Area					
Civilian Labor Force	17,275	17,450	– 1.0	16,800	2.8
Employed	16,875	17,075	– 1.2	16,375	3.1
Farm	1,000	1,075	– 7.0	1,025	– 2.4
Non-Farm	15,875	16,000	– 0.8	15,350	3.4
Unemployed	400	375	6.7	425	– 5.9
Rate	2.3%	2.1%		2.5%	
Montgomery Co.—Coffeyville Area					
Data Not Available					
Reno Co.—Hutchinson Area					
Data Not Available					
Riley Co.—Manhattan Area					
Civilian Labor Force	19,800	20,575	– 3.8	19,150	3.4
Employed	19,250	19,950	– 3.5	18,475	4.2
Farm	1,275	1,375	– 7.3	1,300	– 1.9
Non-Farm	17,925	18,575	– 3.5	17,175	4.4
Unemployed	550	625	– 12.0	675	– 18.5
Rate	2.8%	3.0%		3.5%	
Saline Co.—Salina Area					
Data Not Available					

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE IV
RETAIL SALES SUBJECT TO SALES TAX BY BUSINESS CLASSIFICATION

(millions of dollars)

Business Classification	July * 1979	Apr. * 1979	% change	Avg. 1978	% change
Apparel	25.1	27.4	– 8.5	24.6	1.9
Automotive	214.9	166.2	29.3	180.6	19.0
Food	211.8	212.6	– 0.4	200.4	5.6
Furniture	39.5	37.7	4.9	37.1	6.7
General Merchandise	130.8	144.8	– 9.6	128.4	1.9
Lumber and Building Materials	85.9	66.3	29.6	77.2	11.3
Professional and Personal Service	37.1	30.7	20.9	32.5	14.3
Public Utilities	98.0	108.0	– 9.3	88.7	10.5
Unclassified	96.9	82.9	16.8	84.5	14.6
Farm and Garden Products	1.0	0.8	29.4	0.7	46.7
Manufacture and Trading	72.0	52.7	36.6	58.5	22.9
Miscellaneous	1.9	1.4	36.0	2.2	– 15.4
Total	1014.8	931.4	8.9	915.4	10.9

* Monthly Average for Prior Three Months

Source: Tax Research Section
Kansas Department of Revenue

TABLE V
RETAIL SALES SUBJECT TO SALES TAX BY COUNTY

(thousands of dollars)

County	Sales * July 1979	Sales * Apr. 1979	Change From Apr. 1979 (%)	Sales * July 1978	Change From July 1978 (%)
Allen	5,307	4,081	30.0	4,850	9.4
Anderson	2,365	2,057	15.0	2,343	1.0
Atchison	4,733	4,279	10.6	4,446	6.5
Barber	2,256	1,977	14.1	2,133	5.8
Barton	21,388	18,008	18.8	20,261	5.6
Bourbon	5,472	4,603	18.9	4,999	9.5
Brown	3,396	3,014	12.7	3,469	− 2.1
Butler	12,784	11,630	9.9	12,111	5.6
Chase	768	554	38.5	668	14.9
Chautauqua	1,071	833	28.6	944	13.4
Cherokee	4,143	3,738	10.8	3,876	6.9
Cheyenne	1,253	1,045	19.8	1,171	7.0
Clark	583	521	11.9	533	9.5
Clay	3,121	2,947	5.9	2,968	5.1
Cloud	4,318	3,974	8.7	4,341	− 0.5
Coffey	2,234	1,729	29.2	2,161	3.4
Comanche	629	468	34.2	543	15.9
Cowley	12,490	11,021	13.3	11,554	8.1
Crawford	12,086	10,376	16.5	10,442	15.7
Decatur	1,586	1,377	15.1	1,441	10.0
Dickinson	5,807	5,020	15.7	5,158	12.6
Doniphan	1,874	1,483	26.3	1,741	7.6
Douglas	21,385	20,159	6.1	20,647	3.6
Edwards	999	896	11.5	991	0.9
Elk	699	573	21.9	653	6.9
Ellis	12,254	10,873	12.7	11,685	4.9
Ellsworth	1,789	1,591	12.4	1,601	11.7
Finney	14,150	13,309	6.3	13,326	6.2
Ford	12,951	12,626	2.6	12,349	4.9
Franklin	6,680	5,787	15.4	6,142	8.8
Geary	8,657	7,512	15.2	8,226	5.2
Gove	1,279	1,158	10.4	1,287	− 0.6
Graham	1,606	1,344	19.5	1,412	13.7
Grant	3,311	2,785	18.9	3,293	0.6
Gray	1,713	1,489	15.0	1,666	2.8
Greeley	672	412	63.1	628	7.0
Greenwood	2,499	2,166	15.3	2,211	13.0
Hamilton	885	620	42.8	709	24.8
Harper	2,742	2,243	22.2	2,718	0.8
Harvey	8,529	8,276	3.1	8,166	4.5
Haskell	1,083	775	39.7	1,186	− 8.7
Hodgeman	435	328	32.4	394	10.2
Jackson	2,365	2,182	8.4	2,333	1.4
Jefferson	2,761	1,911	44.5	2,421	14.1
Jewell	976	854	14.3	807	21.0
Johnson	115,627	100,767	14.7	104,983	10.1
Kearny	759	579	31.0	647	17.3
Kingman	2,292	2,012	13.9	2,208	3.8
Kiowa	1,176	1,026	14.5	1,107	6.2
Labette	7,727	6,753	14.4	7,393	4.5
Lane	733	654	12.1	773	− 5.2
Leavenworth	11,677	10,217	14.3	11,132	4.9
Lincoln	1,096	860	27.5	1,004	9.2

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* Monthly Average for Prior Three Months

TABLE V
RETAIL SALES SUBJECT TO SALES TAX BY COUNTY (Continued)
(thousands of dollars)

County	Sales * July 1979	Sales * Apr. 1979	Change From Apr. 1979 (%)	Sales * July 1978	Change From July 1978 (%)
Linn	1,935	1,397	38.5	1,491	29.8
Logan	1,668	1,433	16.4	1,609	3.7
Lyon	12,454	11,211	11.1	11,366	9.6
McPherson	9,583	8,531	12.3	8,680	10.4
Marion	3,652	2,924	24.9	3,715	– 1.7
Marshall	4,250	3,205	32.6	3,577	18.8
Meade	1,304	1,169	11.5	1,226	6.4
Miami	5,177	4,690	10.4	5,025	3.0
Mitchell	3,616	3,093	16.9	3,304	9.4
Montgomery	15,164	12,600	20.3	13,770	10.1
Morris	1,413	1,129	25.2	1,437	– 1.6
Morton	1,137	993	14.5	1,059	7.4
Nemaha	3,057	2,728	12.1	3,134	– 2.5
Neosho	7,132	6,218	14.7	7,135	– 0.1
Ness	1,459	1,394	4.7	1,443	1.1
Norton	2,163	1,828	18.3	1,993	8.6
Osage	3,205	2,612	22.7	3,231	– 0.8
Osborne	1,810	1,497	20.9	1,685	7.4
Ottawa	1,279	957	33.6	1,155	10.7
Pawnee	3,029	2,636	14.9	3,114	– 2.7
Phillips	2,558	2,105	21.5	2,353	8.7
Pottawatomie	4,172	3,194	30.6	4,116	1.4
Pratt	4,572	4,240	7.8	4,562	0.2
Rawlins	962	883	9.0	997	– 3.5
Reno	26,646	24,129	10.4	26,907	– 1.0
Republic	2,392	1,940	23.3	2,109	13.4
Rice	3,209	2,826	13.5	3,154	1.7
Riley	14,373	13,822	4.0	14,810	– 3.0
Rooks	3,111	2,716	14.6	2,973	4.7
Rush	1,278	997	28.1	1,251	2.1
Russell	4,901	3,597	36.3	4,353	12.6
Saline	25,677	22,890	12.2	24,052	6.8
Scott	2,602	2,214	17.5	2,799	– 7.1
Sedgwick	179,660	158,248	13.5	162,843	10.3
Seward	11,430	10,234	11.7	10,852	5.3
Shawnee	69,423	61,580	12.7	66,422	4.5
Sheridan	1,399	966	44.8	1,416	– 1.2
Sherman	2,581	3,300	– 21.8	3,551	– 27.3
Smith	1,831	1,416	29.3	1,767	3.6
Stafford	1,526	1,510	1.0	1,551	– 1.6
Stanton	662	541	22.3	709	– 6.7
Stevens	1,426	1,423	0.2	1,535	– 7.1
Sumner	5,795	5,155	12.4	5,797	– 0.0
Thomas	4,418	3,631	21.7	3,911	13.0
Trego	1,355	1,253	8.1	1,336	1.4
Wabaunsee	1,084	956	13.4	937	15.7
Wallace	664	542	22.5	660	0.7
Washington	2,085	1,853	12.5	1,851	12.6
Wichita	882	860	2.6	935	– 5.7
Wilson	2,732	2,440	11.9	2,666	2.5
Woodson	919	872	5.5	959	– 4.1
Wyandotte	61,266	51,814	18.2	55,839	9.7

Source: Tax Research Section
Kansas Department of Revenue

TABLE VI
PRICES RECEIVED BY KANSAS FARMERS
(dollars)

Items	Aug. 1979	July 1979	% change	Aug. 1978	% change	Annual Avg. 1978
Prices Received by Farmers						
Field Crops						
Wheat (bu.)	3.67	3.85	− 4.7	2.74	33.9	2.72
Corn (bu.)	2.60	2.79	− 6.8	2.17	19.8	2.21
Sorghum (cwt.)	4.06	4.28	− 5.1	3.29	23.4	3.29
Hay (ton)	48.00	49.50	− 3.0	37.00	29.7	40.88
Soybeans (bu.)	7.05	7.30	− 3.4	6.17	14.3	6.17
Livestock & Products						
Beef Cattle (cwt.)	61.80	67.50	− 8.4	54.10	14.2	50.72
Calves (cwt.)	81.50	84.50	− 3.6	61.20	33.2	58.78
Hogs (cwt.)	36.30	38.60	− 6.0	47.40	− 23.4	47.66
Lambs (cwt.)	58.80	62.50	− 5.9	56.20	4.6	59.47
Sheep (cwt.)	17.00	16.90	0.6	15.80	7.6	13.33
Milk (cwt.)	12.30	11.90	3.4	10.50	17.1	10.73
Prices Paid by Farmers						
Soybean Meal (cwt.)	13.00	13.50	− 3.7	12.00	8.3	10.92
Bran (cwt.)	7.30	7.40	− 1.4	5.70	28.1	6.27
Beef Conc. (cwt.)	9.80	9.50	3.2	8.50	15.3	8.58
16% Dairy Feed (ton)	158.00	158.00	0.0	136.00	16.2	138.17
Hog Conc. (cwt.)	14.00	14.00	0.0	12.00	16.7	12.31
Laying Feed (ton)	185.00	187.00	− 1.1	158.00	17.1	160.08

Source: Kansas Crop and Livestock Reporting Service
Kansas State Board of Agriculture
U.S. Department of Agriculture

TABLE VII
COMMERCIAL BANKING ACTIVITY

(millions of dollars)

	Aug. 1979	July 1979	% change	Aug. 1978	% change
Kansas—Statewide					
Loans	7,851	7,757	1.2	7,269	8.0
Demand Deposits	3,808	4,017	−5.2	3,677	3.6
Time & Saving Deposits	8,026	7,847	2.3	7,136	12.5
Loan-to-Deposit Ratio	66.3%	65.4%		67.2%	
Kansas City (Wyandotte)					
Loans	493	475	3.8	512	−3.7
Demand Deposits	222	238	−6.7	236	−5.9
Time & Saving Deposits	527	543	−2.9	485	8.7
Loan-to-Deposit Ratio	65.8%	60.8%		71.0%	
Topeka (Shawnee)					
Loans	519	522	−0.6	450	15.3
Demand Deposits	270	283	−4.6	268	0.7
Time & Saving Deposits	594	508	16.9	494	20.2
Loan-to-Deposit Ratio	60.1%	66.0%		59.1%	
Wichita (Sedgwick)					
Loans	1,234	1,227	0.6	1,154	6.9
Demand Deposits	707	752	−6.0	658	7.4
Time & Saving Deposits	1,057	1,032	2.4	956	10.6
Loan-to-Deposit Ratio	70.0%	68.8%		71.5%	

Source: Research Department
Federal Reserve Bank of Kansas City
Institute for Economic and Business Research

TABLE VIII
SAVINGS AND LOAN ACTIVITY

(thousands of dollars)

	Aug. 1979	July 1979	% change	Aug. 1978	% change
Net New Savings	4,387	12,493	– 64.9	22,596	– 80.6
Mortgage Loans Made	119,924	115,342	4.0	146,915	– 18.4

Source: Federal Home Loan Bank of Topeka

TABLE IX
CONSUMER PRICES

Kansas City

Consumer Price Index, August 1979

	All Urban Consumers (CPI-U)			Wage Earners and Clerical Workers (CPI-W)		
		Percent change from			Percent change from	
	INDEX 1967 = 100	2 months ago	1 year ago	INDEX 1967 = 100	2 months ago	1 year ago
ALL ITEMS	224.6	2.3	15.6	223.1	2.2	14.8
Food and Beverages	235.2	0.6	9.2	229.7	0.4	7.4
Food	240.8	0.7	9.5	235.3	0.4	7.5
Food at home	232.8	-0.7	7.6	228.4	-0.9	5.4
Cereals & bakery products	226.6	1.6	11.8	221.9	1.8	8.8
Meats, poultry, fish, & eggs	221.6	-4.2	5.3	223.6	-4.3	6.5
Meats, poultry, & fish	229.4	-4.3	6.9	230.8	-4.3	7.9
Dairy products	218.8	-0.6	8.7	218.6	-0.5	10.5
Fruits and vegetables	237.3	0.0	9.6	220.8	-0.1	-3.7
Other foods at home	269.0	2.1	7.0	260.9	1.5	4.7
Food away from home	263.6	3.4	13.1	256.0	3.1	12.2
Alcoholic beverages	183.3	-0.1	6.3	177.2	0.4	6.5
Housing	236.9	3.0	19.5	235.5	2.7	18.5
Rent residential	149.8	0.1	6.8	149.8	0.1	6.8
Homeownership	295.5	4.6	28.4	292.9	4.2	26.7
Fuel and other utilities	242.1	1.0	15.7	243.2	1.2	16.4
Gas (piped) & electricity	318.5	1.3	22.7	318.8	1.4	22.9
Household furnishings & oper.	182.0	0.6	3.0	181.8	0.7	2.9
Apparel & Upkeep	182.5	4.0	7.5	174.4	2.9	3.6
Men's & boy's apparel	196.5	5.5	12.7	193.9	6.2	7.9
Women's & girl's apparel	170.7	4.0	6.4	156.8	1.6	1.0
Footwear	195.1	4.6	9.9	181.6	2.0	2.5
Transportation	216.6	2.9	19.5	218.0	3.1	20.3
Private transportation	219.0	2.9	20.1	220.4	3.1	21.0
Public transportation	165.5	2.3	4.4	165.0	2.0	4.0
Medical Care	235.1	0.7	12.2	236.0	0.6	12.8
Entertainment	171.1	0.8	4.4	172.5	1.2	5.2
Other Goods & Services	200.0	0.7	7.9	204.8	0.4	10.6
Personal Care	203.6	-0.9	10.5	212.1	-1.1	15.6
ALL ITEMS (1957-59 = 100)	266.6			264.8		

Business Highlights from Across the State

Arkansas City

On August 31 of this year, John Morrell and Company announced a planned $3 million expansion and remodeling project at its Arkansas City subsidiary, Rodeo Meats, Inc. Expansion plans call for the construction of a new building, adjacent to the existing plant, to manufacture processed meats and for the remodeling of the present facility.

Since last year, Arkansas City has received a tremendous vote of confidence through local industrial development: a multi-million dollar investment has been undertaken at Total Petroleum's Arkansas City refinery to improve output and efficiency, Cessna aircraft has announced plans for additional aircraft construction and employment at Strother Field, and General Electric has planned large capital expenditures at its Strother Field jet engine plant.

Garden City

Construction of a huge beef-processing plant by Iowa Beef Processor's Inc. near Garden City was announced by Governor John Carlin on September 4. The plant will be constructed on a 165-acre site, two miles west of Holcomb, and could employ as many as 2,000 workers. The 70,000 square-foot structure will cost more than $60 million, Governor Carlin said. Construction is to begin immediately, with an expected completion date in 1984. The plant will be capable of slaughtering and processing nearly 4,000 head of cattle a day for an annual total of 1.2 million head.

"I am especially pleased that I.B.P. has chosen Kansas to locate what will be their largest slaughter plant," the governor said in a prepared statement.

Great Bend

Barton County Community College, the Small Business Administration, and the Great Bend Chamber of Commerce are sponsoring a series of business workshops on the campus of the college. Upcoming classes will cover such topics as wage and hour administration, budgeting and forecasting, credit and collections, retail store policies, and personnel relations.

Hutchinson

Hutchinson has been selected by the National Municipal League as one of the twenty-one finalist cities in the All-America City Awards program.

This means that Hutchinson was invited to send a delegation to the National Municipal League Conference in Detroit, Michigan, November 10-13, to make an oral presentation before the All-America Cities Awards Jury.

Approximately 160 cities entered the competition this year. Of the twenty-one finalists, eleven cities will be designated as All-America Cities. The thrust of the program is based on "Citizen Initiative and Action."

Hutchinson's entry focused on the following projects: the Cosmosphere Discovery Center, the Hutchinson Hospital developments, and community-education programs.

Overland Park

Data recently released by the Overland Park Chamber of Commerce provides a partial answer to the question frequently raised by Johnson County's continuing growth: "What do all those county residents do?"

The preliminary employment data for March 1979 indicated 103,500 employees, a growth of nearly 600 since March of 1978. The percentages of employees in the various employment classifications give some insight into the pattern of employment for Johnson County inhabitants. For example, 14 percent are engaged in manufacturing, 5 percent in construction, 5 percent in transportation/public utilities, 33 percent in wholesale or retail trade, 9 percent in finance, 22 percent in services, and 12 percent in government.

Salina

On September 17, Warner Brothers Studios of Hollywood, California, began filming in Salina a motion picture based on the life of cadets in a military school with a commandant who is a retired, partly senile military man. Most of the movie will be filmed at St. John's Military Academy, with other scenes being filmed at Marymount College and Kansas Wesleyan. The filming is expected to last 54 days.

Ed Boyce, president of the Salina Area Chamber of Commerce, stated, "We are very pleased that Warner Brothers has selected Salina for the filming of its movie. The economic impact of this event is going to be tremendous. Rest assured that the Chamber of Commerce will continue to lend its support and cooperation to Warner Brothers until the movie is finished."

The economic impact President Boyce was referring to is estimated to be in excess of $1 million to Salina.

Also, according to film industries' studies, each dollar will turn over between three and seven times. In addition, hundreds of local and area citizens will be hired to fill both speaking and nonspeaking roles.

Richard Shank, film development director of the new movie division of the Kansas Department of Economic Development, was first contacted by Warner Brothers in April concerning the possibility of filming in Salina.

Topeka

The Kansas Association of Commerce of Industry has released figures from a Blue Cross of Indiana study that show that Kansas health care costs rank second lowest nationally. Kansas' per day hospital charge when adjusted for residents' income is $36.47 lower than the national average of $173.98.

The study uses 1977 average daily hospital charges including lab tests, operating room charges, and room rates. The least expensive state was Wyoming ($133.36), followed by Kansas ($137.51). Massachusetts ($220.95) and California ($217.32) were the most expensive states.

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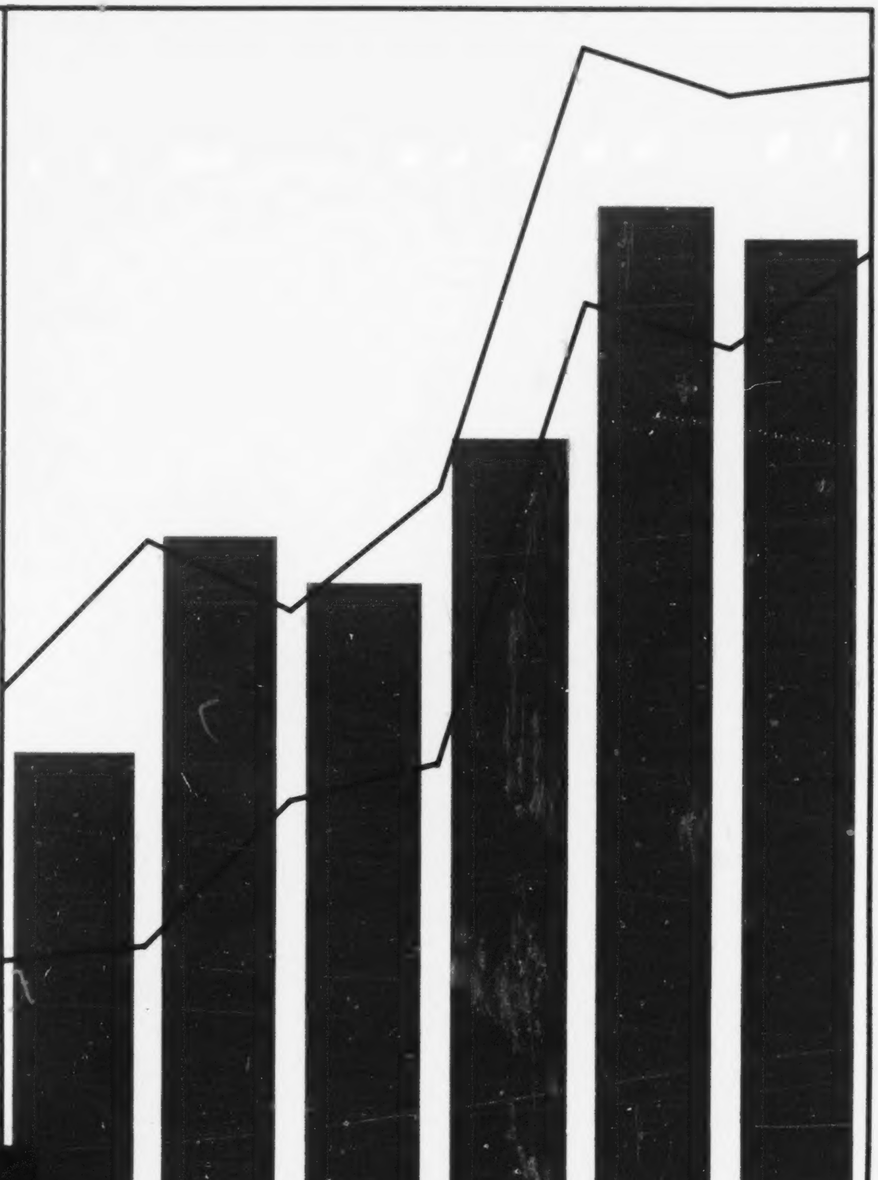

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Inflation and the 1980 Outlook

George L. Perry

Dr. George L. Perry is a Senior Fellow at The Brookings Institution and co-editor of *Brookings Papers on Economic Activity.* The following article is the transcript of Dr. Perry's address to the Economic Outlook Conference for Kansas—1980 held November 2 at the University of Kansas.

The economic outlook for 1980—and probably for well into the decade of the '80s—is being shaped by inflation and by efforts to deal with it. It is alarming to realize that the same thing could have been said ten years ago about economic prospects then.

Introduction

The economic outlook for 1980—and probably for well into the decade of the '80s—is being shaped by inflation and by efforts to deal with it. It is alarming to realize that the same thing could have been said 10 years ago about economic prospects then. In the intervening decade, we have gone through both a modest recession and a very major one as policy tried to slow inflation by reducing demand, output, and jobs; and we have had two and one-half years of price controls and a formal but voluntary program of wage-price restraint as policy tried to slow inflation directly. We have also been rocked by huge increases in energy prices and by episodes of sharply higher food prices, all of which ratcheted the CPI upward and gave new impetus to the price-wage spiral. The net result of these and other developments is that the consumer price index rose 5.5 percent in 1970 and will rise over twice that fast this year.

Voters are unhappy because politicians have not stopped inflation, and politicians are disappointed that economists have not come up with a cure. To their credit, most economists realize there are no quick cures. However, they are frustrated by political obstacles that get in the way of policies that might do some good and that might get us started toward slowing inflation.

I want to return to the longer-run inflation problem and to what we are likely to do in response to it, but, first, let me turn to my main assignment—an assessment of the economic outlook for 1980.

The Economic Outlook

Economic activity turned down after the first quarter of this year. Whether the statisticians ultimately date this as the start of a 1979-80 recession is yet unclear. Activity rebounded modestly in the summer once the gasoline lines vanished, so we have not yet had the persistent downturn in output and employment that would mark a recession. But whether or not one has officially started, bad news is ahead of us. The economy is being hit by tight money, a restrictive budget policy, and the reduction in purchasing power that comes from higher energy prices. I expect that this combination of oil drag, fiscal drag, and monetary drag will pull down demand and lead to serious declines in output and employment over the next few quarters. An assessment of the outlook begins with these three downward forces.

Oil Drag

Energy costs, driven up by the OPEC price boosts and short supplies of crude oil in the spring, have been the biggest factor behind the explosion in the price indexes this year. In round numbers, we import three billion barrels of oil and oil products a year and produce domestically another billion barrels whose price is not controlled. The average price of this oil is up by $8 to $10 a barrel since the first of the year and is still rising. The price of oil products is up even more because tightened supplies and loosened regulations have permitted refinery and dealer margins to widen. As a result, energy has added around 3.0 percentage points to the rate of inflation in the CPI during the first nine months of the year.

Paradoxically, higher energy prices pull real output down at the same time they push prices up, and so they move us toward recession as well as more inflation. This oil drag on the economy consists of the net reduction in demand for other goods and services that comes with higher energy prices. The added payments for oil imports are not balanced by greater payments for our goods and services by oil-producing nations. And higher domestic oil prices and product margins take income from high-spending consumers and convert it into oil industry profits out of which spending is relatively low. Altogether, I estimate that the oil drag is about $30 billion this year and will increase to $40 billion or more during 1980.

Fiscal Drag

Fiscal policy—measured by the high employment surplus or deficit in the budget—is growing increasingly restrictive for both this year and next. Over the two-year period, the fiscal drag on the economy, measured by the swing toward surplus in the high employment budget, amounts to $40 billion. This fiscal drag means that revenues along the economy's trend-growth path are rising $40 billion more than expenditures, thus removing purchasing power from the private sector without replacing it through greater federal sector demands.

Monetary Drag

During the first weekend in October, the Federal Reserve announced three major policy moves: an increase in the reserve requirements banks are required to hold against certain forms of deposits; an increase of a full percentage point in the discount rate—the rate banks pay to borrow reserves from the Fed; and a change in operating tactics with a new emphasis on controlling bank reserves. Each of the three measures directly caused or signalled higher interest rates. Taken together, they represented a major change to a strategy of tighter money.

The change in strategy was prompted by both foreign and domestic developments. The dollar was under pressure in foreign exchange markets, and there was a risk that it would depreciate against other currencies, in particular the West German mark. Our government was committed to stabilizing the dollar's international value, and raising interest rates here would help by making investment in dollar denominated securities more attractive. Indeed, rising interest rates abroad had been one factor putting pressure on the dollar.

If the domestic economy needed easier money, it is doubtful that the Fed would have tightened policy sharply despite these international pressures. But in early October, it appeared that, if the economy was heading into recession, it was taking its time about it and that, if inflation was slowing, it was not visible in any of the monthly price statistics. Most of the bad news in the inflation statistics came from soaring oil prices, which were neither a surprise nor a source of inflation that could be affected by monetary policy. Some of the strength in economic activity during the summer represented a bounceback from the artificially depressed levels of the spring when gasoline lines cut sharply into consumer spending. But, on balance, the domestic economic statistics all tilted the Fed towards a more restrictive policy.

I expect that this combination of oil drag, fiscal drag, and monetary drag will pull down demand and lead to serious declines in output and employment over the next few quarters.

The Fed's stated intention to control the growth of bank reserves more closely has created some new uncertainties in financial markets. In principle, such a policy should lead to greater fluctuations in interest rates as a consequence of stabilizing the supply of available funds when the demand for these funds fluctuates. Paul Volcker himself has said that interest rates would now fall more readily when economic activity slowed, just as they would rise more readily when it quickened.

But there are all sorts of complications to the Fed's new strategy, of which I will mention just two. First, there is no simple relationship between the quantity of bank reserves and the quantity of loans or other investments that banks make or the amount of money that the banking system creates. For example, it would surprise most people to learn that total bank reserves were no higher in September than they had been in January. Second, the demand for money or any other monetary aggregate depends, very loosely, on the price level as well as on the pace of real activity. This dependence on the price level destroys any close link between real activity and interest rates. If prices keep rising rapidly, the demand for funds will grow rapidly even if real activity and employment are declining.

These complications inevitably leave the Fed with a good deal more discretion in interest rate policy than some observers have read into their announced plan to control bank reserves. Pressure on the dollar and continued price inflation will keep the Fed from responding promptly to signs of economic weakness. I expect interest rates to decline but not before the economy is well into recession, and high interest rates will help push it there by choking off demands that depend on borrowing.

GNP in 1980

I now expect real GNP, our most comprehensive measure of total economic output, to fall by 2.5 percent from its peak in early 1979 to its trough in mid-1980. In our growing economy, this means output will have fallen some 7.0 percent below trend by the second half of next year, leading to sharp declines in industrial utilization rates and corporate profits and to a rise in unemployment to around 8.0 percent. Such a recession would not be as deep as the last one in 1973-75, but it would be worse than the average of the previous five downturns of the post-war period.

Obviously there are uncertainties on either side of such a forecast: until recently, at least, the government still hoped to achieve a "soft landing" with economic activity leveling off for a period but not actually falling much and with the unemployment rate rising a little but not to recession levels. A number of private forecasters agreed. On the other side, severely restrictive policies by other industrial nations or another sharp increase in OPEC oil prices would increase the probability of a more severe economic downturn than I now expect. Because inflation will still be a problem and will inhibit policymakers from using a large scale fiscal-monetary stimulus next year, the recovery from recession may be only modest and gradual, with economic slack continuing for several years after 1980.

The emerging weakness in the economy shows up unevenly among different sectors of demand. During 1979, weakness started in consumer buying, and it will spread to residential construction, inventory accumulation, and business investment in new plant and equipment.

Consumer Spending

Although the quadrupling of crude oil prices by OPEC in 1974 was a more spectacular economic event, this year's increase in the OPEC price has actually led to a far bigger rise in the price that consumers pay for fuel products. During 1974, with most fuel prices controlled, the energy component of the CPI rose by 21 percent. This year it has risen more than twice as fast. Such price increases for essential goods reduce the income consumers have available for spending on other things. Tax reductions could offset this loss of purchasing power, but, instead, the growing fiscal drag from the budget has added to the loss as inflation has increased the real tax burden on incomes.

The inflation rate that makes the headlines and that most concerns the public could be rising at only a 7.0 percent rate during much of next year . . . what is troublesome is that so large a part of this deceleration rests on factors beyond our control.

Consumers have tried to maintain their spending—and perhaps even to "buy ahead" of rising prices—by reducing their savings to a very low 4.1 percent of disposable income in the third quarter. From here, the saving rate should rise toward more normal levels, and spending for consumption will weaken further. This is the verdict both from statistical analysis and from survey evidence that shows consumer confidence and sentiment have eroded badly this year. Compared with a rise of 11 percent in consumer spending in 1979, I expect only an 8.0 percent rise next year.

Residential Construction

The biggest surprise to forecasters this year has been the relative strength of home building. The rate of housing starts during the first nine months was 13 percent below the 1978 average, but, compared with past episodes of rising interest rates, housing starts have remained remarkably strong. In the past, when market interest rates rose during tight money periods, funds left the traditional mortgage lending institutions for higher yields elsewhere. Starting in 1978, banks and thrift institutions were permitted to issue money market certificates with returns tied to the yields on Treasury bills. They were thus able to compete for funds more effectively as interest rates rose. Together with large purchases of mortgages by semigovernmental agencies, these funds have kept mortgage money available, although at record-high mortgage interest rates.

Now that the Federal Reserve has driven rates still higher, protection of the mortgage market and home building will erode. Mortgage lenders borrow short and lend long, and the cost of borrowing short simply looks too high. I expect that the rate of housing starts will fall below 1.5 million units by next spring and that weakness in residential construction activity will contribute to the overall economic downturn.

Business Fixed Investment

Business investment in plant and equipment confronts two big negatives in 1980: growing excess capacity in existing plant and equipment will reduce the need for new investment to expand capacity; at the same time, high borrowing costs will reduce the prospective profitability of new investments and will lead firms to postpone investment projects.

Weakness in business investment outlays usually lags behind weakness in other sectors, but indicators that foreshadow investment spending have already softened. The most recent government survey of anticipated spending on plant and equipment shows that barely enough increases are scheduled during the second half of this year to keep pace with rising prices. Outside of the defense sector, new orders for capital goods have fallen below levels at the start of the year. Investment by some industries, such as automobiles, aircraft, and petroleum, will be relatively insensitive to the emerging weakness in demand, but, overall, real business investment spending will decline in 1980.

There is a growing consensus in Washington for tax changes to encourage business investment; however, no such changes will be enacted soon enough to head off the cyclical weakness in this sector.

Inventory Building

Inventory building sometimes smooths and sometimes exaggerates variations in final demand in the economic cycle. If consumer spending, home building, and business investment now decline abruptly, these declines will lead to another large and unintended build-up of inventories which will initially shield output and employment from a drop in sales. This will be followed by an attempt to reduce the unwanted stocks which will add to the subsequent weakness in production. If weakening final sales are well anticipated, the corresponding slowdown in production and employment will be more gradual. But, either way, inventory building for 1980 will be much smaller than in 1979, and this swing will contribute to the downturn in overall GNP next year.

Other Sectors

Tight budgets are the order of the day at all levels of government. Neither state and local nor federal spending will be rising enough to offset weakness in private sector demands.

The real balance between exports and imports should swim against the tide and provide some support to production in an otherwise weak economy next year. Agricultural exports are growing as a result of bumper U.S. crops of wheat, corn, and soybeans coupled with poor grain crops in Russia. Furthermore, the U.S. recession, alongside the continued expansion that is currently expected in foreign economies, should improve our real trade balance in raw materials and manufactured goods. In actual dollar values, rather than in real terms which adjust for prices, higher imported oil prices could cancel much of this improvement. The better trade balance that I expect after price correction is welcome but far too small to head off the downturn in total GNP.

Inflation in 1980 and Beyond

This year, over one-third of the double-digit inflation in the CPI has come from energy prices and the cost of home purchase and financing. Most of the remainder—roughly an annual rate of price increase of 7.0 to 8.0

percent—represents the underlying rate of inflation in the economy and parallels an 8.0 to 9.0 percent rate of increase in hourly wage costs. In assessing future prospects, it is useful to distinguish between these two elements of our current inflation: the underlying rate and everything else.

The underlying inflation rate has great inertia and will be slowed only gradually by the unemployment and excess capacity that will emerge next year. On the basis of past experience, it is realistic to expect a slowdown of only one half a percentage point in the underlying inflation rate.

I believe that we will design innovative programs based on tax incentives that work and that the decade of the 1980s will be the one in which we solve the inflation problem.

The actual CPI should slow by much more in 1980. The cost of home purchase and financing, which has added between one and two full points to the rate of increase in the CPI this year, will slow as mortgage interest rates finally level off and as the recession ends the steep rise in home prices. If energy prices go up by only 10 to 15 percent during 1980—which is the optimistic end of the realistic range of expectations—they will add little to the actual rate of inflation relative to the underlying rate in contrast to their disastrous impact this year. Although most observers expect another hefty price boost from OPEC and decontrol of domestic crude prices to continue, the price of energy products should not rise by as much as the price of crude oil next year. During 1979, controls have been more effective in holding down crude oil prices than product prices, thus shifting profits from the wellhead to refineries and the distribution chain for energy products; some reversal of this should occur in 1980. Of course, if an oil shortage occurs or if OPEC raises prices as much as they have this year, energy prices will rise more than I have projected.

Finally, just a moderate rise in the overall CPI cannot be expected if food prices explode. Food prices count for 20 percent of the whole index, and they have been volatile in the past. For what it is worth, agricultural experts are not expecting a food price explosion during 1980, but forecasts here have often been very wrong.

As this appraisal suggests, the inflation rate that makes the headlines and that most concerns the public could be rising at only a 7.0 percent rate during much of next year—only half as fast as through most of 1979. What is troublesome is that so large a part of this deceleration rests on factors largely beyond our control—such as oil production and pricing abroad and good crops around the world. The part of the deceleration that is a clear and permanent response to restrictive fiscal and monetary policies and the recession they help to cause is only the one-half point slowdown in the underlying rate of inflation. We will come out of recession with that underlying rate still at an unacceptable rate of about 7.0 percent, and that will be the base from which inflation could well accelerate again as the next cyclical expansion proceeds.

The inertia in the underlying inflation rate stems from wages chasing prices, prices chasing wages, and wages chasing other wages. Some parts of this process are formally institutionalized in cost of living escalators for wages. Some parts come from political actions such as increased price supports, expanded protection from import competition, or indexed minimum wages. But most of the process simply reflects implicit and informal arrangements between employers and employees that keep anyone from getting too far behind the rest in the inflationary parade.

Because of the great inertia in this inflationary process, tight fiscal and monetary policies have high costs in lost output and jobs and small benefits in inflation fighting. Of the slowdown in GNP that such policies will generate next year, 80 or 90 percent will show up as lost output and jobs and only 10 or 20 percent as reduced inflation.

Compared with this poor cost-benefit ratio to traditional policies, programs that attempt to get directly at the wage-price spiral look very attractive. The present government's program for wage-price restraint, which centered around the Council on Wage and Price Stability, has not received accolades for its successes. Yet a careful review of the record shows that it has helped to contain wage costs and has thus moderated the overall inflation rate. The bad news on inflation has come from areas where it had no authority for action or influence—such as big jumps in food prices and in OPEC oil prices—or where it was overruled by other events or political considerations—such as the run up in mortgage interest rates and the decontrol of domestic fuel prices.

The main thrust of the restraint program was to moderate rates of wage increase, and, outside the major unions, the facts show it succeeded. The Council's 7.0 percent wage guideline was not adhered to rigidly, but it did have enough impact to hold down the economy-wide increase in average hourly earnings to near 7.0 percent through most of 1978 and even into 1979. But major union wages have far outpaced the wage guideline and wages elsewhere in the economy, thanks in part to generous cost of living provisions in most contracts.

Although most employers have welcomed the 7.0 percent wage guideline as a way of trying to orchestrate moderation in average wages, it has been increasingly hard for them to do so in the face of comparisons either with the conspicuous gains by major unions or with the CPI itself. In this situation, we have heard less and less about the 7.0 percent wage guideline from the government and, with the creation of the new 15 man advisory group headed by John Dunlop, it may now be abandoned altogether. If it is, we face a risk that wage restraint may evaporate and that the wage-price cycle may accelerate another notch.

I believe we will return to a restraint program based on numerical targets for average wages and prices, and, when we do, it may provide formal tax incentives for compliance. The administration's proposal early this year for real wage insurance was designed on that principle. Although Congress turned down that bill, it may take the next one seriously.

Until we do implement an acceptable and effective way to slow the wage-price spiral, inflation will remain a chronic problem, and fighting inflation will repeatedly conflict with achieving our goals of high employment and growing prosperity. As this hard fact sinks in, I believe the political consensus for an effective policy will emerge, we will design innovative programs based on tax incentives that work, and the decade of the 1980s will be the one in which we solve the inflation problem.

Question and Answer Session

The following is an edited version of the question and answer session that followed Dr. Perry's address.

Question: How do you feel about the possibility of a national sales tax as an alternative to increased social security taxes or in conjunction with a decrease in the individual income tax? What do you feel would be the impact of a national sales tax?

Perry: That's really what the value-added tax proposal is. As I suggested earlier, I think it's the wrong tax at the wrong time because its impact is going to be directly on the price level. Granted, it's a one-time jolt, but it's a huge one time jolt, and, in the nature of the price-wage spiral, it does not stop in that first month. Although our economy is not fully indexed, it has substantial indexing, by which I mean that, if the consumer price index jumped, an awful lot of wages would jump the next month. That jump, in turn, feeds other price increases and would have, I think, a devastating upward push on the price-wage spiral. So I think this upward generation is a fatal flaw, really, to a value-added tax or a national sales tax: both would directly raise the price level.

Question: President Carter's wage guidelines are in a shambles now. Don't you think it's futile to continue the guidelines? How successful do you think John Dunlop and his Pay Advisory Board are going to be?

Perry: I'm afraid that if you don't like what the Board is trying to do, you should be happy. I do think that we need some continued restraints, but I was about to say that I'm afraid the Pay Advisory Board is going to seriously undermine the restraint effort. I don't know just what's going to come out of it, but thus far the group doesn't seem committed to doing any serious inflation fighting for us. John Dunlop, who is a singular genius as a negotiator and arbitrator, who's an absolute wonder in gradually working with labor, is completely opposed to the guideline approach, that is, to setting a wage standard and then trying to find some way to induce compliance with it. In other words, he is opposed to the approach which attempts to address the problem as an aggregate problem. In contrast to this method, I would characterize the Dunlop approach as talking to the automobile workers at the time that their settlement comes up and, then, working with that, moving over and trying to get the steel workers to give in a little bit. Over a period of time, he did a marvelous job, for instance, in slowing down the explosion in construction worker pay that was going on in the early seventies. But, at the national level, the situation doesn't really concern negotiated settlements. Most wages in this country are not negotiated. That's why I suggested in my speech that the main element of the price-wage spiral is really the informal arrangements by which most of the labor market works, whereby no one gets too far behind the inflation parade. If you see the problem as being this kind of inflationary stimulus, as a rather wide-spread price-wage spiral, then, I think, you have to look for something that is less of a personalized approach to the problem (which is Dunlop's way) and more of a national policy, with some sort of national sanctions perhaps. I just don't think this new Board is going to move in this direction, so I'm rather pessimistic about their effectiveness.

Question: What is your impression of the proposed windfall profits tax?

Perry: I don't think the windfall profits tax has much of an effect on the overall economic picture. It does not change the price of oil or oil products one way or the other; therefore, one's opinion of it really has to be formed on other grounds. I believe that the questions that should be asked concern the issue of equity. For example, is there a windfall profit out there? And, if so, is this an effective and fair way of taxing it? My short answer to that is "yes," there is a considerable measure of windfall profits out there, and "yes" we probably should tax some of that and put it to other important uses. However, I don't think that the windfall profits tax is going to pass or, at least, a very effective windfall profits tax. I'm not saying that the tax should capture all oil profits, but I think that there are huge, huge profits involved in what's happening to the world price of oil and that, quite properly, some of that profit should be diverted to national purposes.

Question: Do you think that improving productivity will lower inflation?

Perry: That's really a two-part question. The first is: Do I see much hope that we can improve productivity? And, then, the second: If we did, would the increase be of great help on the inflation front? Unfortunately, careful studies of productivity have concluded very little. I know because in the next issue of *Brookings Papers* we are publishing some very heavy, serious work on this subject and some discussion by other people who have done some heavy, serious work on it. What you really have to conclude is that the sources of productivity growth are not well understood. We don't know, for instance, what the payoff is to stimulating investment a bit more. We don't know what the cost is, if any, of various regulatory measures that have been passed. What we do know—what appears to be true—is that there is no policy action that would affect the rate of productivity growth by more than a few tenths of a percent. So, if you are worried that productivity is slow and is growing at only 1.0 percent a year, we might, by moving some small mountains, be able to move that to 1.3 percent a year. Not to three percent from one . . . that just doesn't seem to be the order of magnitude of what we can accomplish. There is a consensus in Washington to try to encourage, and make more profitable, business investment as a way of trying to improve productivity performance. But the payoff there has been small.

When you ask—How can increased productivity help on the inflation front?—you're down to just arithmetic. The input to the inflation problem is going to be measured in terms of how great the productivity improvement is, and I'm afraid we're only talking about a few tenths of a percent. So, if we are talking about the annual inflation rate, the underlying rate, the 7.0 or 8.0, we are talking about taking it down to 6.7 or 6.8: only a modest improvement. Again, we're not talking about something that can take us from our seven percent inflation and get us down towards price stability in any short period of time. Now, this slight decline will build. Three-tenths the first year might become five-tenths a couple of years later in terms of the inflation rate. But I don't think the solution really lies there. It's important to make that rather dismal conclusion because, if we don't, then we might improve depreciation provisions and go home happy and think we've solved the inflation problem. Such wishful thinking is so far from true that it would be a great shame to so deceive ourselves. You have to deal with the inflation problem as a process, and, if we're going to make much headway on it, it will be by finding a way to intrude on that process of price and wage setting, which is, right now, running at a very inflationary rate and which we'd like to slow down. So, I don't think that the payoff in terms of inflation is very great in terms of what we might do to increase productivity.

Question: Do you subscribe to the idea that the large budget deficits run up over the last decade by the federal government are a major cause of inflation? Do you see any possibility of Congress cutting governmental expenditures as a way to lower the deficit?

Perry: Your question expresses the growing sentiment towards a more restrictive fiscal policy, towards reining in the growth of federal expenditures. About the only area where that sentiment is not the order of the day is in the defense budget right now. I know that you are probably aware that most expenditures in the budget are mandated expenditures. There is, in reality, very little scope for dealing with them. In response, you can only make radical fundamental changes on the basis on which they are mandated. I have in mind programs like social security, which grow with the population eligible for it and which grow automatically because they're completely indexed with the consumer price index. Therefore, when you look at increases in federal spending, you're looking primarily at increases that are coming from sources like that and not at new programs or at program's expanded by congressional caprice. This is an important point and deserves repeating: the great bulk of federal expenditures increase by mandate. Still, granted that the mood of being quite restrictive on expenditures has credible cause, it's a big step to say that this mood should take the form of a balanced budget, particularly so because the calls for a balanced budget come in the context of a desire for some program of tax deductions which would further enlarge the deficit.

I've worried about these issues and studied them quite hard, and I think that what many people expect to get from actions like balancing the budget simply won't happen. Balancing the budget has nothing to do with stopping inflation, for instance, which is something that most people believe it has a great deal to do with. The best thing to do is to take that on my authority and let it go at that. But if you don't want to do that and if you don't want to wade through a great deal of heavy economics in order to decide, just look at what happens around the world. We're often asked why can't we do as well as the Germans; they seem to know how to run a tight ship. In fact, the German budget deficit is many, many times larger than ours in terms of its relationship to GNP. Ours is one percent, less than one percent of an economy our size, and Germany's is about four percent. Or, look at Japan: their deficit is even much, much greater than Germany's, and Japan has done a relatively good job on the inflation front. The reason for their success is that these countries have found a way to influence directly the price-wage spiral—to get wage restraint as part of their overall policy actions. In simple terms, the budget deficit just is what it is, and it really has no consequences for the inflation problem as the historical record in the U.S. demonstrates. If you look, there is no correlation between inflation and budget deficits. The supposed relationship is just one of those ideas that dies very hard because it sounds so obvious—but, I'm afraid, it's not true.

Nonetheless, I haven't convinced the world of this, and there's a certain amount of sentiment in Washington to move in the direction of a balanced budget, and, as you know, there are people campaigning for president on the basis of platforms like that. So that mood may prevail for a while yet. However, I think that the push for tax reductions will grow in intensity and will put that sentiment off to the side, which I regard as a happy consequence. But I would not like to see us squander the tax reduction money just by putting in an old-fashioned tax cut. I think we should very seriously channel any tax reductions in directions that promise some real help on inflation. I think we should not just be doing old-fashioned tax cuts next year no matter how deep the recession is.

Question: I would like to follow up your response to the previous question. Don't you feel that the increased expenditures on the part of the federal government are a source of inflation? Isn't the federal government one of the major sources of inflation?

Perry: If you ask—Are there things the government does that contribute to inflation?—I think the answer is "yes," but I don't think they are government expenditures. In fact, one of the problems with excessive attention to the expenditure side is that, if you were to pass constitutional amendments that somehow limited expenditures, one of the main effects would be to drive Congress to accomplish its ends by means that don't show up in the budget but that are almost always inflationary. In other words, expenditures are frequently the most efficient and least inflationary way to accomplish something. Let me give you an example: the government wants to clean up the air, and one way it could do that would be to decide it's going to cost this country ten billion dollars to clean smokestacks up so they can burn coal . . . and so it's going to spend ten billion dollars to do that. It's a national purpose, and we all breathe the air, and there's ten billion dollars *already* in the budget. That would not be inflationary. By contrast, it can mandate all kinds of changes that companies have to make. And, when it does that, it usually does so in a rather inefficient way. Therefore, what gets mandated is not necessarily what needs to be done to do the job. But either way, whether it's effective or not—let's put that aside for a moment—the fact is it's now going to show up in the costs of the firm and in the price of the product that the firm sells. It's going to be directly inflationary; it's going to show up in the price level. It is perhaps paradoxical that practicing old-fashioned restraint on expenditures in accomplishing this particular task will generate a great deal of inflation. There are other examples of a similar sort that I could offer.

I think that it is much more important, in terms of evaluating the inflationary consequences of what the government does, to ask about effects of the kind that I just mentioned than to ask about particular areas in which we spend money. One could think of examples at particular times when government spending was especially inflationary, but, in general, I don't think that these examples tell us very much about controlling inflation.

Question: Don't you feel that with a strong, goal-directed energy policy on the part of the federal government our country could become energy self-sufficient? Do you feel our government is currently doing enough in the energy area? Don't we need an Apollo project for energy?

Perry: I take it that the thrust of your question is that, if we threw enough money at the energy crisis, couldn't we solve the energy shortage in a technological way. After all, we can send a man to the moon, why can't we . . . you fill in the blank.

We have had successes, but we also have had failures following massively funded programs. For example, we've been throwing money at cancer for years and haven't whipped it. Moreover, I don't think that the successes we have had assure us of future success. In other words, I don't think that the expense of a hundred billion dollars automatically means that we will have synthetic energy at a decent price in ten years. I think that the question you're raising is a good one, but I'd ask you to consider it in a slightly different context. Throwing money at the problem won't necessarily produce cheap energy. It may produce some technological marvel; it may be that we can take coal and make out of it something that we can burn in an automobile, but, when all the technology is said and done, it might be that it's four dollars a gallon.

Let me add that I know some people who work at the Department of Energy, and they're shocked by how much money is being thrown at the problem. It's true that the projects are not being done by the federal government, but they are financed by the federal government. My impression is that, if you come in with anything that's halfway or potentially promising, you'll get financed. It may be true that the country is making some effort to marshall its powers to address the energy shortage, but it's also true that it's being done by financing private activities more than by the government collecting all the best brains and locking them in a room somewhere.

The other consideration, of course, is that the oil companies keep telling us that they're going full barrel toward energy self-sufficiency. I don't know how to evaluate those claims. We can hope that the effort is one thing in addition to the buying of Montgomery Wards; we can hope that, at least, it is one other activity they're pursuing with all that money.

Question: If I understand what you've said correctly, you have dismissed a tight fiscal-restraint policy and policies aimed at increasing productivity as effective means of combating inflation. I wonder if your dismissals of these potential tools is not a bit arbitrary, and I wonder also if you would be more specific about how you think we can effectively interfere with the inflationary price-wage spiral.

Perry: Well, I didn't mean to reject out of hand some of these proposals, rather I meant to say that don't imagine that, if you improve, say, the laws governing depreciation, you can then turn your back on inflation because you've solved it. I do think that some kind of change in the depreciation allowance may be well worthwhile for a number of reasons, one reason being that a few tenths rise in the productivity growth rate may be nice to have all by itself (whether it solves the inflation problem or not). So I wasn't suggesting that such policies were not worth doing; simply that they shouldn't turn our attention from the inflation problem, which I don't think they're going to solve.

I think that the direction in which we are eventually going to go in solving inflation is to find some way of putting incentives into what has, in the past, been voluntary restraint efforts. We have had, for instance, a seven percent guideline for wage increases. To the amazement of a great many people, that voluntary restraint actually seemed to do some good. There was a lot of evidence from nonunion employers that they were using that number as a standard from which to grant the wage increases. I'm sorry to say that The Brookings Institution was very public spirited and put a lid on wage increases of that sort. This sort of thing works for a little while, but then you'd like to put more teeth into it, you'd like to be able to make the seven percent standard a standard of six percent next year and to deescalate gradually.

The kind of proposal I have in mind would be a cousin to something which we actually talked the government into proposing early this year. They called it "real wage insurance," and basically it said: Any firm whose employees agree to an average wage increase of seven percent (or any firm which holds to that standard) is eligible for real wage insurance for its employees; that is, if the CPI rises more than seven percent, they get a tax break at the end of the year to help make up the difference. It really sounds very simple, and, if you perceive the inflationary process the way I perceive it, the plan has tremendous promise. If you can really hold down increases in costs, you've accomplished a great deal, and you shouldn't be inhibited from doing so because if for some reason or another the price index rises more than you expect (as it did this year because of oil) you will have to compensate those who practice moderation. It is the moderation that you want. Now, old myths die hard, and a lot of the opposition to this bill, when it was proposed, was on the basis that what would ever happen if the CPI went up and we had to pay out? We would add to the budget deficit. Well, I think here commonsense should be your guide. If you've really held down the rising costs, you know that you've helped on the inflation front, and you should not imagine that there is some way in which it's going to come back and haunt you if you have paid out and consequently enlarged the deficit in the process of getting that restraint.

Well, real wage insurance is an example of the kind of program that I have in mind. Of course, when you start getting down to really designing it, it becomes difficult. You get a bunch of bright guys in a room talking about it, and they think of one objection after another. But I think a thrust of this kind should really be there in our efforts to fight inflation. I'm sufficiently convinced that the main problem in fighting inflation is one of a tremendous inertia infecting our efforts and that there is almost no way to act against the inertia without putting some incentives into our fight plan. You could use sticks as well as carrots. I'm suggesting a carrots approach; others may suggest penalties rather than the sort of compensation that I was suggesting. But I think that this is the direction we must pursue. This way represents a rather novel class of ideas, but, when it turns out that none of the other methods work, we'll get a more serious hearing for this sort of policy.

My chairman tells me that we've run out of time, so I thank you very much.

Kansas in September

General Business

The recession which has been expected for so long has been pushed, yet again, into the future. The revised third quarter GNP figures pushed the growth in GNP up about another one percent from the original estimates. It now appears that the recession will not start until the first quarter of 1980 if, in fact, there will be a recession.

The Kansas economy continued to show strength in September, although not as much strength as a casual review of the statistics would indicate. A quick review of the data provided by the Research and Analysis Section of the Kansas Department of Human Resources reveals that employment jumped up in September. During the same time, the average work week increased from 40.8 to 41.3 hours, average weekly earnings increased 3.6 percent, and initial claims for unemployment decreased 29.4 percent. Although these changes reflect continued strength in the Kansas economy, they are primarily a seasonal phenomenon. For example, from August 1977 to September 1977 average weekly earnings increased 3.2 percent, and from August 1978 to September 1978 average weekly earnings increased 4.9 percent. Thus, the September 1979 data does not reflect a new surge in the Kansas economy; rather, it reflects a continuation of the pace set the last two years which were good years for the Kansas economy. (See Table I.)

Employment

A closer look at the data provided by the Research and Analysis Section of the Kansas Department of Human Resources discloses, in large part, where the seasonal effect in employment lies. Total nonfarm wage and salary employment (by place of work) increased 11,700. Specifically, manufacturing employment dropped, mining dropped, contract construction dropped, transportation-utilities employment dropped, wholesale trade employment dropped, financial employment dropped, and service employment dropped; however, federal employment increased 200 and retail trade employment increased 2,000. The net effect of all these categories is a decrease of 300 in the total employment picture. The one remaining category of employment, State and local government, had an increase in employment of 12,000 from August to September, reflecting the beginning of the school year.

In terms of the long-run employment scene (September 1979 compared to September 1978), only four figures stand out. Employment in aircraft and aircraft parts was 18.3 percent above last year, employment in contract construction, despite the high-interest rates experienced since last spring, was up 12.9 percent, employment in meat production was up 9.4 percent, and employment in apparel production was down 7.9 percent. A further indication of the strength in the Kansas economy is the growth of 3.5 percent in total employment since September 1978 and, since September 1976, the more than 100,000 new jobs that have been added to the Kansas economy. (See Table II.)

Regional Employment

Statewide, the number of employed Kansans increased in September while the number of unemployed Kansans decreased, resulting in a slight drop in the statewide unemployment rate to 2.7 percent. This figure is less than half of the national unemployment rate for September and a reduction of 0.6 percent from the Kansas unemployment rate for September 1978. Of the nine regional areas surveyed, eight experienced a decline in their unemployment rate from the last time they reported, and, the other area, the Kansas portion of the Kansas City SMSA, had no change in its unemployment rate. From September 1978 to September 1979, only one regional area suffered an increase in its unemployment rate, the Coffeyville Area (Montgomery County), and that increase in the unemployment rate was only from 2.2 percent to 2.3 percent.

Of the individual areas in Kansas, in terms of employment, the most remarkable is the Wichita SMSA. The number of employed residents of the Wichita SMSA has increased nearly 20,000 in the last year and nearly 40,000 since September 1976. In September 1976, the unemployment rate in the Wichita SMSA was 5.0 percent; three years later, the unemployment rate has been cut in half. One of the major stimulants to the Wichita economy, though not the only, has been the aircraft industry which has added 14,000 jobs to the Wichita SMSA since September 1977. (See Table III.)

Retail Sales (for August)

The monthly average for total retail sales based on the retail sales tax for the quarter ending in August was up 12.0 percent over the monthly average for the preceding three-month period. Although for such a short period, a 12 percent increase in retail sales is significant, this 12 percent—due to the exemption of residential housing from the retail sales tax on public utilities which began July 1, 1979—underestimates the increase in retail sales during the last quarter. If the estimate for public utility sales is ignored, then retail sales during this same period rose 17.4 percent—about four times the inflation rate.

All of the major categories of retail sales, except of course, public utilities, showed a double-digit growth from the quarter ending in May to the quarter ending in August. However, if the retail sales for individual months are viewed, then the erratic nature of Kansas retail sales tax statistics becomes apparent. May, July, and August were good months for retail trade, while April and June were poor months. It appears that consumers are acting in unison but without a pattern to their behavior: either they buy a great deal or they buy very little at any given time. It is this erratic nature of consumption in the last few months which accounts for the fact that retail sales for the quarter ending August 1979 were up only 10.4 percent above the retail sales for the quarter ending August 1978. Even if public utilities are ignored, during this same period retail sales only increased 10.7 percent which is less than the rate of inflation. Thus, the July and August surge in retail sales was unable to make up for the weak June performance of retail sales. (See Table IV.)

Farm Prices

The prices Kansas farmers received for field crops, except wheat, declined for the second straight month. The price of wheat rose to $3.84 per bushel: this is only one cent below its peak price in July and more than a dollar higher than the price Kansans received for wheat in September 1978. The price of wheat has more than doubled since its last trough in May 1977 and has increased 90 percent since September 1977.

In contrast to field crop prices, all prices Kansas farmers received for livestock and livestock products increased from August to September. The prices of beef cattle, calves, lambs, and sheep all increased more than 10 percent. All of the prices for livestock and livestock products, except hogs, are up substantially over the prices received for these products in September 1978.

The prices Kansas farmers paid for feed either declined or remained unchanged from August to September: the prices for soybean meal, bran, beef concentrate, and dairy feed all declined. However, when prices for this September are compared to prices paid last September, a different picture emerges. All feed prices are up more than 10 percent above their price in September 1978. (See Table VI.)

Financial Activity

The September banking data for Kansas begins to show the effects of the tight money policy instituted by the Federal Reserve. Statewide, loans increased slightly, as they did in Kansas City, Kansas. Topeka experienced an actual drop in loans while Wichita had an increase of 1.3 percent. Possibly of more significance is that statewide and in each regional banking center the loan-to-deposit ratio dropped from August to September, and only in Topeka was the loan-to-deposit ratio above the September 1978 level. (See Table VII.)

The September data for savings and loan institutions again looks grim. (The surge in net new savings from August to September is caused solely by the quarterly crediting to deposit accounts of interest payment.) When compared to a year ago, both net new savings and mortgage loans made declined over 25 percent. The Federal Reserve policy of putting uncertainty into the money markets has taken the uncertainty out of the savings and loan business. The policy has definitely limited their activity. (See Table VIII.)

TABLE I
GENERAL BUSINESS INDICATORS

	Sept. 1979	Aug. 1979	% change	Avg. Prior 6 mos.	Annual Avg. 1978
Manufacturing					
Average Work Week (hrs.)	41.30	40.80	1.20	40.60	40.70
Average Weekly Earnings (dollars)	282.90	272.95	3.60	270.37	240.99
Initial Claims for					
Unemployment Insurance	4,815.00	6,827.00	– 29.40	7,821.00	8,082.00
New Incorporations					
In-State for Profit	319.00	411.00	– 22.40	395.00	336.00
Out-of-State for Profit	94.00	93.00	1.10	93.00	88.00

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

Kansas Secretary of State

TABLE II
NON-FARM WAGE AND SALARY EMPLOYMENT BY PLACE OF WORK

(thousands)

Industry	Sept. 1979	Aug. 1979	% change	Sept. 1978	% change
All Industries	956.0	944.3	1.2	923.7	3.5
Manufacturing	197.1	197.9	– 0.4	191.2	3.1
Durable Goods	129.2	128.8	0.3	124.7	3.6
Stone, Clay, Glass	10.4	10.3	1.0	9.7	7.2
Primary Metals	4.0	4.0	0.0	3.8	5.3
Fabricated Metal Products	14.0	13.7	2.2	13.8	1.4
Machinery (incl. elec.)	34.3	34.2	0.3	32.6	5.2
Transportation Equipment	53.1	53.1	0.0	51.3	3.5
Aircraft & Parts	47.2	46.4	1.7	39.9	18.3
Other Durable Goods	13.4	13.5	– 0.7	13.5	– 0.7
Nondurable Goods	67.9	69.1	– 1.7	66.5	2.1
Food & Kindred Products	24.0	24.3	– 1.2	22.9	4.8
Meat Products	9.3	9.2	1.1	8.5	9.4
Apparel	3.5	3.6	– 2.8	3.8	– 7.9
Printing & Publishing	16.2	16.6	– 2.4	15.3	5.9
Chemicals	8.4	8.5	– 1.2	8.3	1.2
Petroleum & Coal	4.8	4.8	0.0	4.7	2.1
Other Nondurable	11.0	11.3	– 2.7	11.6	– 5.2
Mining	13.4	13.6	– 1.5	12.9	3.9
Oil & Gas Extraction	11.0	11.2	– 1.8	10.7	2.8
Contract Construction	56.9	57.2	– 0.5	50.4	12.9
Trans., Comm., Elec., Gas	66.7	67.3	– 0.9	63.7	4.7
Wholesale Trade	62.0	62.5	– 0.8	61.3	1.1
Retail Trade	164.4	162.4	1.2	160.1	2.7
Finance, Insurance, Real Estate	47.4	47.7	– 0.6	45.6	3.9
Services	166.9	166.7	0.1	158.3	5.4
Federal Government	25.8	25.6	0.8	25.8	0.0
State & Local Government	155.4	143.4	8.4	154.4	0.6

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS

Area	Sept. 1979	Aug. 1979	% change	Sept. 1978	% change
Kansas—Statewide					
Civilian Labor Force	1,222,000	1,218,900	0.3	1,169,400	4.5
Employed	1,188,400	1,184,400	0.3	1,131,200	5.1
Farm	72,600	76,400	– 5.0	79,900	– 9.1
Non-Farm	1,115,800	1,108,000	0.7	1,051,300	6.1
Unemployed	33,600	34,500	– 2.6	38,200	– 12.0
Rate	2.7%	2.8%		3.3%	
Lawrence SMSA					
Civilian Labor Force	33,400	31,800	5.0	32,150	3.9
Employed	32,400	30,800	5.2	31,100	4.2
Farm	900	1,000	– 10.0	1,000	– 10.0
Non-Farm	31,500	29,800	5.7	30,100	4.7
Unemployed	1,000	1,000	0.0	1,050	– 4.8
Rate	3.0%	3.1%		3.3%	
Kansas portion of Kansas City SMSA					
Civilian Labor Force	266,100	267,000	– 0.3	256,550	3.7
Employed	256,400	257,300	– 0.3	247,250	3.7
Farm	1,600	1,700	– 5.9	1,750	– 8.6
Non-Farm	254,800	255,600	– 0.3	245,500	3.8
Unemployed	9,700	9,700	0.0	9,300	4.3
Rate	3.6%	3.6%		3.6%	
Topeka SMSA					
Civilian Labor Force	94,400	94,600	– 0.2	93,050	1.5
Employed	91,400	91,500	– 0.1	89,600	2.0
Farm	2,100	2,200	– 4.5	2,350	– 10.6
Non-Farm	89,300	89,300	0.0	87,250	2.3
Unemployed	3,000	3,100	– 3.2	3,450	– 13.0
Rate	3.2%	3.3%		3.7%	
Wichita SMSA					
Civilian Labor Force	224,500	224,900	– 0.2	207,150	8.4
Employed	218,900	219,000	– 0.0	200,500	9.2
Farm	2,900	3,100	– 6.5	3,250	– 10.8
Non-Farm	216,000	215,900	0.0	197,250	9.5
Unemployed	5,600	5,900	– 5.1	6,650	– 15.8
Rate	2.5%	2.6%		3.2%	

	Sept. 1979	July 1979	% change	Sept. 1978	% change
Barton Co.—Great Bend Area					
Civilian Labor Force	17,625	17,675	– 0.3	17,400	1.3
Employed	17,350	17,275	0.4	17,075	1.6
Farm	1,075	1,200	– 10.4	1,100	– 2.3
Non-Farm	16,275	16,075	1.2	15,975	1.9
Unemployed	275	400	– 31.3	325	– 15.4
Rate	1.6%	2.3%		1.9%	

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS (Continued)

Area	Sept. 1979	July 1979	% change	Sept. 1978	% change
Crawford Co.—Pittsburg Area					
Civilian Labor Force	16,475	16,225	1.5	16,425	0.3
Employed	15,950	15,600	2.2	15,800	1.0
Farm	975	1,100	– 11.4	975	0.0
Non-Farm	14,975	14,500	3.3	14,825	1.0
Unemployed	525	625	– 16.0	625	– 16.0
Rate	3.2%	3.9%		3.8%	
Lyon Co.—Emporia Area					
Data Not Available					
Montgomery Co.—Coffeyville Area					
Civilian Labor Force	21,375	21,275	0.5	21,500	– 0.6
Employed	20,875	20,725	0.7	21,025	– 0.7
Farm	700	775	– 9.7	700	0.0
Non-Farm	20,175	19,950	1.1	20,325	– 0.7
Unemployed	500	550	– 9.1	475	5.3
Rate	2.3%	2.6%		2.2%	
Reno Co.—Hutchinson Area					
Civilian Labor Force	35,325	32,200	9.7	34,550	2.2
Employed	34,650	31,400	10.4	33,650	3.0
Farm	1,525	1,725	– 11.6	1,550	– 1.6
Non-Farm	33,125	29,675	11.6	32,100	3.2
Unemployed	675	800	– 15.6	900	– 25.0
Rate	1.9%	2.5%		2.6%	
Riley Co.—Manhattan Area					
Data Not Available					
Saline Co.—Salina Area					
Civilian Labor Force	25,950	26,400	– 1.7	25,450	2.0
Employed	25,275	25,675	– 1.6	24,775	2.0
Farm	800	925	– 13.5	825	– 3.0
Non-Farm	24,475	24,750	– 1.1	23,950	2.2
Unemployed	675	725	– 6.9	675	0.0
Rate	2.6%	2.7%		2.7%	

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE IV
RETAIL SALES SUBJECT TO SALES TAX BY BUSINESS CLASSIFICATION

(millions of dollars)

Business Classification	Aug. * 1979	May * 1979	% change	Aug. * 1978	% change
Apparel	25.4	23.0	10.4	22.9	10.9
Automotive	213.6	187.4	14.0	204.1	4.7
Food	234.1	208.0	12.5	205.1	14.1
Furniture	40.4	36.5	10.7	36.2	11.6
General Merchandise	136.5	123.5	10.5	125.7	8.6
Lumber and Building Materials	95.1	67.2	41.5	84.0	13.2
Professional and Personal Service	38.8	31.5	23.2	33.9	14.5
Public Utilities	84.2	114.9	– 26.7	78.9	6.7
Unclassified	101.7	84.3	20.6	90.7	12.1
Farm and Garden Products	1.0	0.9	11.1	0.7	42.9
Manufacturing and Trading	74.3	55.8	33.2	64.0	16.1
Miscellaneous	1.8	1.6	12.5	2.4	– 25.0
Total	1046.9	934.6	12.0	948.6	10.4

* Monthly Average for Prior Three Months

Source: Tax Research Section
Kansas Department of Revenue

TABLE V
RETAIL SALES SUBJECT TO SALES TAX BY COUNTY

(thousands of dollars)

Data Not Available

TABLE VI
PRICES RECEIVED BY KANSAS FARMERS
(dollars)

Items	Sept. 1979	Aug. 1979	% change	Sept. 1978	% change	Annual Avg. 1978
Prices Received by Farmers						
Field Crops						
Wheat (bu.)	3.84	3.67	4.6	2.81	36.7	2.72
Corn (bu.)	2.54	2.60	– 2.3	2.09	21.5	2.21
Sorghum (cwt.)	3.95	4.06	– 2.7	3.21	23.1	3.29
Hay (ton)	47.00	48.00	– 2.1	41.00	14.6	40.88
Soybeans (bu.)	6.66	7.05	– 5.5	6.23	6.9	6.17
Livestock & Products						
Beef Cattle (cwt.)	68.20	61.80	10.4	56.00	21.8	50.72
Calves (cwt.)	89.80	81.50	10.2	66.30	35.4	58.78
Hogs (cwt.)	38.10	36.30	5.0	48.00	– 20.6	47.66
Lambs (cwt.)	66.70	58.80	13.4	59.40	12.3	59.47
Sheep (cwt.)	22.00	17.00	29.4	13.70	60.6	13.33
Milk (cwt.)	12.60	12.30	2.4	11.00	14.5	10.73
Prices Paid by Farmers						
Soybean Meal (cwt.)	12.50	13.00	– 3.8	11.00	13.6	10.92
Bran (cwt.)	7.20	7.30	– 1.4	5.90	22.0	6.27
Beef Conc. (cwt.)	9.60	9.80	– 2.0	8.60	11.6	8.58
16% Dairy Feed (ton)	156.00	158.00	– 1.3	134.00	16.4	138.17
Hog Conc. (cwt.)	14.00	14.00	0.0	12.00	16.7	12.31
Laying Feed (ton)	185.00	185.00	0.0	160.00	15.6	160.08

Source: Kansas Crop and Livestock Reporting Service
Kansas State Board of Agriculture
U.S. Department of Agriculture

TABLE VII
COMMERCIAL BANKING ACTIVITY

(millions of dollars)

	Sept. 1979	Aug. 1979	% change	Sept. 1978	% change
Kansas—Statewide					
Loans	7,858	7,851	0.1	7,282	7.9
Demand Deposits	3,940	3,808	3.5	3,797	3.8
Time & Saving Deposits	8,094	8,026	0.8	7,150	13.2
Loan-to-Deposit Ratio	65.3%	66.3%		66.5%	
Kansas City (Wyandotte)					
Loans	494	493	0.2	513	- 3.7
Demand Deposits	225	222	1.4	241	- 6.6
Time & Saving Deposits	540	527	2.5	500	8.0
Loan-to-Deposit Ratio	64.6%	65.8%		69.2%	
Topeka (Shawnee)					
Loans	516	519	- 0.6	447	15.4
Demand Deposits	286	270	5.9	278	2.9
Time & Saving Deposits	553	594	- 6.9	483	14.5
Loan-to-Deposit Ratio	61.5%	60.1%		58.7%	
Wichita (Sedgwick)					
Loans	1,250	1,234	1.3	1,166	7.2
Demand Deposits	758	707	7.2	702	8.0
Time & Saving Deposits	1,066	1,057	0.9	948	12.4
Loan-to-Deposit Ratio	68.5%	70.0%		70.7%	

Source: Research Department
Federal Reserve Bank of Kansas City
Institute for Economic and Business Research

TABLE VIII
SAVINGS AND LOAN ACTIVITY

(thousands of dollars)

	Sept. 1979	Aug. 1979	% change	Sept. 1978	% change
Net New Savings	55,737	4,387	1170.5	77,728	- 28.3
Mortgage Loans Made	87,172	119,924	- 27.3	120,607	- 27.7

Source: Federal Home Loan Bank of Topeka

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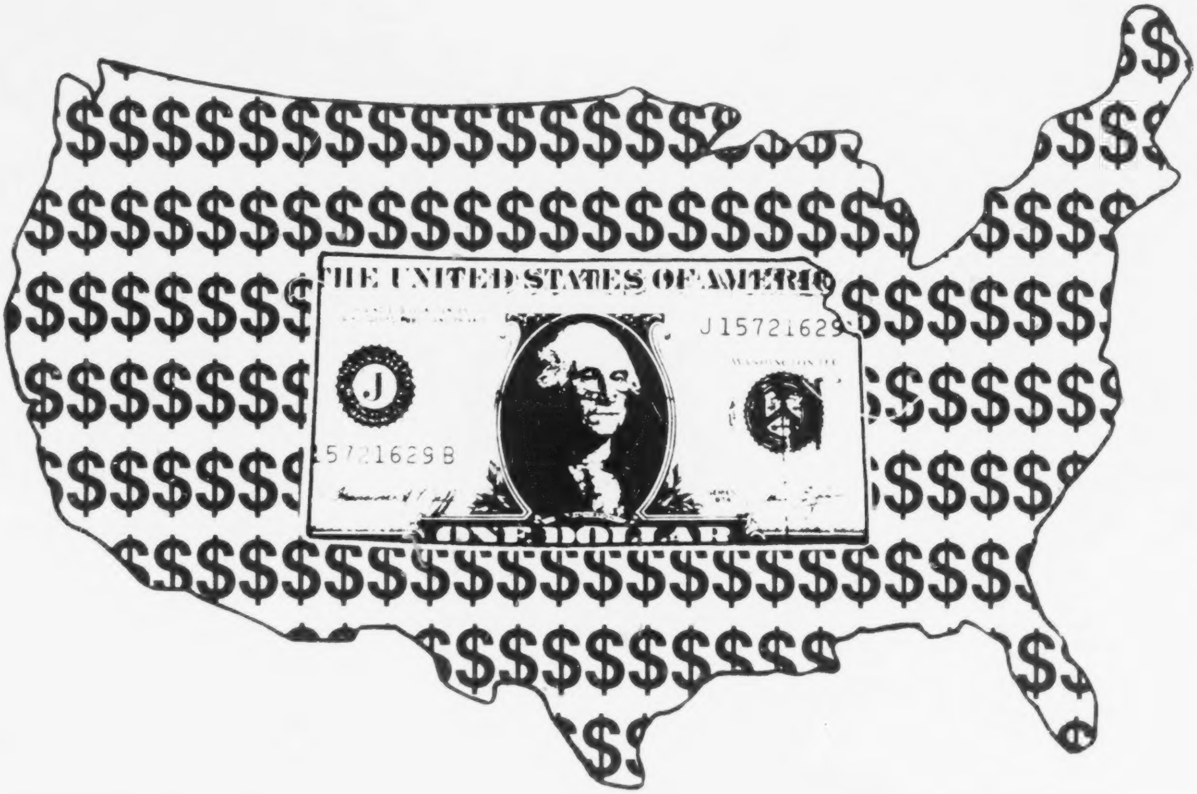
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Reports from the Economic Outlook Conference for Kansas --1980

The State of the State

The following reports are adaptations of the speeches given by Governor John Carlin, Professor Darwin Daicoff, and Professor Jarvin Emerson on November 2, 1979 at the fourth annual Economic Outlook Conference for Kansas. Dr. Daicoff is Professor of Economics and Director of the Institute for Economic and Business Research at the University of Kansas; Dr. Emerson is Professor of Economics at Kansas State University.

By the Honorable John Carlin,
Governor, the State of Kansas

Shortly after taking office as Governor of Kansas, I had the opportunity to report to you on the state of the Kansas economy. Then, as now, I am firmly convinced that government, working hand in hand with private enterprise, can fulfill its share of responsibility to maintain a healthy Kansas economy. Today, as we meet, our nation is in the midst of a recession. Each day, we hear the terms inflation, balance of payments deficit, and reduced standard of living. As our nation searches for solutions to these difficult economic problems, most Kansas economic indicators reveal that our economy remains healthy and stands as a model to the nation.

I am glad to report that, according to our most current figures, the State's gross economy should increase nearly 15 percent in 1979 as compared to 1978. In 1978, Kansas realized a $21.4 billion gross State product. This year, the economic indicators show that the gross State product should be slightly more than $24.5 billion. Meanwhile, personal income should increase nearly 15 percent from $18.5 billion in 1978 to $21.2 billion in 1979.

One of the brighter spots in our 1979 economic report is farm income, which is expected to increase more than 25 percent during 1979.

As you know, we finished 1978 with the second lowest rate of unemployment in the United States—3.2 percent. Our unemployment rate for last month was slightly more than 2.8 percent. Barring some totally unforeseen economic disaster, our overall unemployment rate should be at least two-tenths of one percent lower than in 1978.

It is our expectation that employment will increase about 3.0 percent in 1979 over the previous year. In 1978, 1,132,000 people were employed in Kansas. Estimated employment for 1979 should register 1,166,000. Seventy new industries located in Kansas over the last year. Numerous other industries have expanded.

Still, Kansas, like the rest of the country, is the victim of inflation. Without a doubt, inflation is our greatest problem as we prepare for 1980. It has affected the most important aspects of our economy including housing, labor, and agriculture. Kansas taxpayers continue to feel the brunt of inflation. Wages and salaries are expected to increase approximately 14.5 percent as opposed to an anticipated 12.5 percent increase in the cost of living.

Due to our diverse economic structure, Kansas has, in the past, been spared much of the instability caused by fluctuations in national economic conditions. Our current anti-inflation policy, although designed to directly ease inflation, exerts significant short-term hardships for some sectors of our economy.

Nowhere is this more visible than in the area of housing; however, the credit crunch will also affect Kansas consumers already faced with a rising cost of living as well as Kansas farmers faced with the rising costs of operations and businesses in need of capital and desiring to start up or expand in Kansas.

Aside from the imminent capital shortage, the labor shortage in Kansas continues to persist. Despite the threat of nationwide recession, Kansas continues to suffer from a serious shortage of skilled workers. At a time when increases in the State's housing stock could serve to attract skilled labor to Kansas communities, current national policy could be disastrous if not supplemented by State action. Furthermore, according to projections, more than 15,000 housing units should be constructed annually if we are to meet the housing needs of the State by the year 2000.

Economic development is not an optional activity for this administration. It is a vital concern. Economic development requires my continuous involvement. To address these issues, this administration has pursued, and will continue to pursue, a number of initiatives in these problem areas. In housing, I have proposed a five-point program designed to increase resources with which to meet the housing needs of Kansas. My administration favors the establishment of a nonprofit State housing corporation to assist Kansas communities in issuing tax exempt revenue bonds for multifamily housing. I have assigned this responsibility to the Kansas Department of Economic Development and, in addition, will urge the 1980 session of the Legislature to study ways to make our usury rate more flexible to ease the availability of funds for housing needs. These actions should serve to reinforce recent attempts by the President to directly increase the availability of housing funds to the Federal Home Loan Bank Board and the Department of Housing and Urban Development.

To cope with inflation, I feel that this administration must capitalize on existing opportunities. High inflation and dollar devaluation have increased the demand for American products and have made them more competitive. We must take advantage of the current situation to promote the development of additional markets for Kansas products and support the continued expansion of our tourism industry. In September, we sponsored a conference on international trade. Topics ranged from potential overseas markets to information and technical assistance in the area of foreign trade. Representatives from nineteen foreign countries attended the conference. In addition, the Kansas Department of Economic Development sponsored a Governor's Conference on Tourism in October to explore ways to better promote tourism as a major industry in Kansas.

The opportunities are monumental. The value of our manufactured exports in 1976 was $635 million, and Kansas ranks 17th among the 50 states in amount of manufactured products. According to a 1977 survey, the travel industry in Kansas employed 39,000 persons and generated more than $30 million in tax revenue for State government and about $5 million for local governments.

As you know, we visited the People's Republic of China on an exploratory trade mission. I believe that the trip established a solid groundwork for future relations with the world's most populous country, as China today represents one of the greatest sales markets for Kansas agricultural products and technology. As a result of this trip, Kansas is in the forefront in establishing meaningful trade relations with China. We look forward to future exchange and cooperation particularly in areas of agriculture, business, and education.

These are only some of the directions I have pursued during the first year of my administration. My legislative package for the 1980 session will reflect these concerns as well as other issues that confront the Kansas economy.

Earlier I mentioned my concern for the continuing pressure of inflation on Kansas taxpayers. Since I became Governor of the State, relief from the tax burden has been a major priority of my administration. We have witnessed success in extending tax relief and have repealed the sales tax on utilities. We have expanded the homestead property tax relief program, we have increased the amount of personal exemption in the State income tax, and we have opposed legislation that would have brought increased property taxes for residential and farm properties. We have supported, and will continue to support, restraints on excessive State spending. We will also continue to study ways to further extend tax relief during the coming legislative session. These measures are designed to address the issues of inflation and economic development that confront this administration.

I continue to believe in the goal of sustained economic development and quality growth for Kansas. In light of the difficult times ahead, I believe that government and the private sector in the State can and must work together to achieve this goal.

I ask your support and look forward to receiving your continued advice and counsel during the coming months.

Best wishes in your deliberations, and I thank you for allowing me the opportunity to participate in this most worthwhile meeting.

Kansas and the Nation 1979-1980

By Darwin Daicoff

I will begin with a review of the economic forecast that the participants of the conference produced last year. I feel that these annual forecasts are a very important part of our conference activities because this cross section of the two or three hundred of you gives considerable insight into what is forecast in the private sector. But, if we review what was forecast last year and compare that with the record for 1979, we see that the audience last year forecast a much more severe 1979 recession than we may be in presently.

Last year's participants forecast unemployment higher, gross national product growth lower, interest rates

Table 1
National Economic Forecasts, Yearly

	1978	1979	1980
Gross National Product			
Current, % Change	12.0	11.3	8.0
Real, % Change	4.4	1.9	– 1.4
Real Disposable Income, % Change	4.6	2.3	0.1
Profits Before Tax, % Change	16.3	12.0	– 2.5
Consumption, % Change	11.6	11.4	8.7
Money Supply, % Change	8.4	7.0	3.3
Prime Rate, % Change	9.06	12.7	12.4
Bond Rate, % Change	8.88	9.8	9.7
Unemployment Rate, %	6.0	5.9	7.4
Consumer Price Index, % Change	7.7	11.2	10.2
Wholesale Price Index, % Change	7.7	12.7	12.7
Housing Starts, % Change	2.2	– 15.5	– 11.0

lower, profits lower, and inflation lower than actually recorded. In particular, they estimated that inflation, as measured by the consumer price index, would increase by 11 percent; the increase will probably be closer to 12 percent. In terms of gross national product and current value terms, they forecast an increase of about 8.5 percent, whereas the increase may be about 11 percent. Most of the difference, of course, is due to inflation. As far as interest rates are concerned, they were much more optimistic than the record would justify in that they forecast that the prime rate would average slightly under 11 percent for the year. Clearly, it will be much closer to 13 percent before the year is over. Profits were estimated to increase by a sum of slightly less than 4.0 percent, while, in fact, profits are increasing at a rate of about 12 percent for 1979. In so far as unemployment, the forecast was that unemployment would rise substantially to 6.5 percent, but it has remained below 6.0 percent.

I want to turn our attention now to a review of some national forecasts, and I will conclude my address with a review and a forecast for Kansas. We have the data for 1978, a forecast for what 1979 will produce, and the predicted numbers of a forecast for 1980 (see Table 1). I will begin with gross national product—the total value of all goods and services produced in the nation. In terms of current value terms, gross national product increased about 12 percent in 1978, is estimated to be slightly lower this year at 11.3, and is forecast to grow for next year at 8.0 percent. If we look at what happened in real terms—taking out the impact of inflation—we see that most of last year's 12 percent growth was the result of inflation, for the real growth was only 4.4 percent. The real growth this year looks even bleaker, below 2.0 percent real growth rate for 1979. For 1980, real gross national product is predicted to decline; a declining real GNP clearly indicates a recession in 1980. In terms of real disposable income which is a good measure of welfare or of real economic well-being (dollars adjusted for inflation that one can spend after taxes), we see a 4.6 percent gain last year, a 2.3 percent increase this year, and almost zero growth next year. Profits before taxes in 1978 rose mightily at 16.3 percent, and this year they will come in at 12 percent. That 12 percent number is the sum of some very interesting numbers that we all have been made aware of in recent days; for example, the fantastic profits being reported by the oil companies of late. Of course, this 12 percent growth includes Chrysler's troubles as well. When you put the pluses and the minuses together, 1979 turns out to be a good year, not a great year, but one much better than next year, wherein profits before taxes are expected to actually decline. Consumption, of course, is such a big part of gross national product that it tracks gross national product quite well. The numbers show that consumption has grown along with GNP. In fact, consumption has grown slightly more rapidly than GNP this year and may grow even more next year in spite of the forecasted decline in GNP. Therefore, consumption is expected to be a positive part of the economy in 1980. In terms of data that ought to interest bankers, the money supply increased by about 8.4 percent last year with 7.3 percent likely this year. Recent data show that the money supply decreased; this decline anticipates the significant decline forecast for next year, when the money supply growth is predicted to be less than half of this year's growth. With the prime rate rising from 9.0 percent to over 12.0 percent and probably even higher from 1978 to 1979, with the battle being waged against inflation, and with high interest rates in general, short-term rates will decline slightly in 1980. Look what happens to bond rates: almost no change next year—from 9.8 to 9.7.

The fight against inflation, which is clearly the major current economic policy, will not change this year's unemployment rate much from last year's. But next year, we will probably add about 1.5 percentage points to the unemployment rate; that 1.5 percent means that about 1.5 million more people who are looking for a job won't be able to find one. The relationship tells us something about the trade-offs that are really involved in our economy: when we try to gain a little bit on inflation—one percentage point—we have to add a 1.5 percentage point increase to the unemployment rate and drive real growth down to a negative 1.4 percent. We live in a world of difficult public choices. The wholesale price index increased from 7.7 in 1978 to 12.7 in 1979 and is predicted to increase at about the same rate in 1980. Housing starts for 1978 ran about 2

When we try to gain a little bit on inflation—one percentage point—we have to add a 1.5 percentage point increase to the unemployment rate and drive real growth down to a negative 1.4 percent. We live in a world of difficult public choices.

million, 1979 ought to come in at 1.7 million, and 1980 at 1.2 million or less—this pattern represents two years of substantial declines for the housing industry.

Let us now look at some of these numbers on a quarterly basis (see Table 2). This table includes data for the last three quarters of 1979 and for the four quarters of 1980. For GNP we see a peculiar situation in the second quarter of 1979 where we had that negative growth of 2.3 percent. That figure was the result of the energy situation, the teamster's strike, declining purchases of meals away from home—a whole host of related factors that resulted in negative growth. The third quarter turned around to offset the second quarter decline. This forecast calls for a bleak fourth quarter of 1979 and bleak first and second quarters for 1980. This run of negative numbers would represent three quarters of negative growth in a row which by most definitions would qualify as a recession. If I were to adjust these numbers in light of current expectations, the only thing I'd change would be to make the fourth quarter of 1979 slightly less negative than the – 3.6 percent.

In terms of real disposable income, the quarterly numbers track the gross national product fairly consistently. In 1980, the prime rate is expected to decline a point every quarter. The prime will read a high of 15 or 16 points sometime this quarter and then begin to taper off.

The quarterly unemployment data show a 5.8 percent rate in the third quarter of 1979 and an increase of around two percentage points by the end of 1980. Because there are about a hundred million people in the labor market, those two points mean that two million people won't find jobs. The consumer price index annual increase is predicted to decline from its current 13.6 level to about 8.0 percent by the end of 1980. This prediction assumes that there won't be any additional increase in oil prices. If the Saudis do, in fact, raise oil prices by 40 percent, as a lot of their talk seems to indicate, then all bets on this forecast are off. The wholesale price index is expected to decline more rapidly in the early part of 1980 than it did in 1979 but is predicted to turn upward at the end of 1980.

Now, let's turn our attention to Kansas. This is an economic outlook conference for 1980, but, because we are embarking on a new decade, I was inspired to go back and look at a bit of Kansas history to see what the past has to tell us about how we got to where we now are. I have history for 30 years in, basically, five-year increments that measure the economic well-being or economic performance of Kansas (see Table 3). These numbers express Kansas as a percentage of the nation. Kansas population in 1948 was 1.3 percent of the nation; by 1978 it was 1.08 percent. This decline was fairly consistent throughout the entire period, with some very significant negative growth in the middle of the 1960's due to out-migration. It should be noted that in 1978 there was the first upswing in that percentage figure in the entire 30-year period—this year was one of the few times that Kansas grew more rapidly than the nation.

In respect to Kansas agricultural and nonagricultural employment as a percentage of the nation, a pattern of decline over the 30 year period can be seen, as the ratio moves from 1.25 percent to 1.12 percent. The high point was reached in 1952, a peculiar year in Kansas relative to the nation as we will also see in respect to other data. In 1952, the employment ratio hit 1.28; the low was at 1.04 in 1970. Over the last three years, there has been some relative employment gain for the State. Personal income received by Kansans moved from 1.21 percent of the nation in 1948 down to 1.08 in 1978. The high mark for this indicator was also in 1952 when the number reached 1.31, and the low in 1969 was 1.05 percent. In the last four years, there has been a downward turn with a slight upturn in 1978.

Kansas per capita personal income in the early part of the period was below average at 93 percent of the nation and, in 1978, was slightly over 100 percent. Again, the high was in 1952 when it was 103 percent; the low at 90 percent was in 1956.

Per capita personal income, of course, relates personal income to population. The relationship between employment and population is intriguing. I produced a series that relates Kansas employment to population for the 30-year period (see Table 4). In 1948, 36.6 percent of Kansans had a job, and that number has risen to almost 43 percent 30 years later.

Table 2

National Economic Forecasts, Quarterly

	II-79	III-79	IV-79	I-80	II-80	III-80	IV-80
Real GNP, % Change .	– 2.3	2.4	– 3.6	– 4.0	– 1.0	1.0	2.1
Real DI, % Change . . .	– 1.3	2.1	– 1.3	– 2.0	– 0.5	2.5	2.3
Prime Rate, %	11.7	12.5	14.8	13.9	12.7	11.7	10.9
Unemployment Rate . .	5.7	5.8	6.3	7.0	7.4	7.8	7.8
CPI, % Change	13.6	13.6	12.8	11.5	9.8	8.3	8.0
WPI, % Change	9.3	12.0	11.6	9.0	8.4	8.3	8.7

Table 3

Kansas as Percentage of Nation

Year	Population	Employment	Personal Income	Per Capita Personal Income
1948	1.30	1.25	1.21	93.22
1950	1.27	1.24	1.22	96.12
1955	1.27	1.23	1.18	92.32
1960	1.21	1.18	1.15	94.68
1965	1.14	1.10	1.09	95.67
1970	1.10	1.04	1.06	95.68
1975	1.07	1.11	1.09	101.60
1978	1.08	1.12	1.08	100.59

Significant increases began in 1962 and have continued ever since. Comparisons to the nation and other states are possible. In 1976, Kansas had a ratio at 36 percent versus 37 percent for the nation as a whole. Relative to the states in our area, Missouri, Colorado, and Nebraska were not terribly out of line with the Kansas figure; Oklahoma runs somewhat out of line. The data suggest that industrial urban states have higher employment to population ratios than do rural states.

Dr. Emerson is going to talk in greater detail about the growth in population and employment in Kansas, but I would like to make a few comments as well. If September 1979 employment numbers are compared to September 1978 numbers, I find that employment in Kansas has increased by about 3.0 percent. This 3.0 percent increase in State employment is largely concentrated in three industries: in aircraft and parts, in contract construction, and in services. As a matter of fact, these three industries account for about 60 percent of the total increase in employment for the State. The service and the aircraft increases are a continuation of a trend that we observed in 1978 and that we can expect to continue in 1980. However, one cannot forecast that construction employment will continue to increase at the 13 percent rate registered last year, especially given the difficulties in the home construction portion of the industry.

Table 4

Kansas Employment Related to Population (Percent)

Year	Ratio
1948	36.62
1950	35.79
1955	34.82
1960	33.03
1965	33.27
1970	34.96
1975	39.66
1978	42.82

Not only do we have a concentration of employment growth in three specific industries, we also have a concentration of employment growth in particular parts of Kansas. The Wichita SMSA and the Kansas portion of the Kansas City SMSA account for about two thirds of the total growth of employment in the State. So, while employment is growing, it is clearly growing in just a few industries in a few particular places.

Let's turn to personal income (see Table 5). From 1972 to 1978, Kansas personal income grew at a rate of 83.4 percent, which was slightly more rapid than the 82.6 percent for the nation. Compared to the four states bordering Kansas, Kansas grew more rapidly than two and less rapidly than two; we were in the middle. In the most recent year, from 1977 to 1978, again Kansas grew more rapidly than the nation, but that growth rate was surpassed by three of the states in the region. On the basis of the numbers that are available through July for this year, again Kansas grew more rapidly than the nation—19.1 percent versus 12.8 percent—and the 19.1 percent is larger than the rate of increase for any of the bordering states. Relative to the nation, Kansas per capita income was 99 percent in 1972, slightly below average; by 1977, we were at the national average, and by 1978 we were above average. Among neighboring states, Colorado income always has been above the national average and continues to be so, while the other three bordering states are below the national average. The farthest below is Oklahoma.

Table 5

Personal Income

Growth (Percent Change)	1972-78	1977-78	July 1978-July 1979
Kansas	**83.4**	**13.3**	**19.1**
Colorado	99.9	14.6	19.0
Nebraska	78.8	14.4	15.6
Missouri	78.8	12.3	10.5
Oklahoma	103.3	13.8	14.0
U.S.	82.6	12.1	12.8
Relative Position: (Percent of Nation)	**1972**	**1977**	**1978**
Kansas	**99**	**100**	**101**
Colorado	101	102	103
Nebraska	97	95	97
Missouri	93	93	93
Oklahoma	85	91	91

The farm income data for Kansas in 1978 are very current; we can see that there was $4.4 billion in cash receipts from farm marketings for the State—an increase of some 15 percent over 1977. Most of that increase is from livestock where the cash receipts rose by a third; crop receipts fell by about 10 percent. Government payments rose substantially in 1978 to $300 million, and that was a rise of 27 percent for the year. The gross farm income increase was 15 percent, essentially the same growth as in cash receipts. Production expenses, however, rose more rapidly than cash receipts, and, therefore, net farm income before inventory fell by one percent in 1978. In 1978, farmers added $100 million to their inventory of crops and livestock; net farm income rose to $712 million. This $712 million is a significant improvement over the last four years. These numbers are amazing. In 1974, net farm income fell 36 percent. In 1975, it then fell by an additional 29 percent; it fell by an additional 32 percent in 1976. In 1977, it only fell by 5.0 percent. Since 1974, the only gain was in 1978 when net farm increase moved from $416 million in 1977 to $712 million in 1978, an increase of 71 percent.

We now have the data for farm prices for September of this year (see Table 6), and we can see that a ton of hay sold for $47 in September, an increase of 14.6 percent from September

1978 to September 1979. Corn prices increased 21 percent for the year. Soybeans increased 11 percent—the weakest of these crop prices—and wheat prices rose 36 percent, clearly the strongest increase in field crop prices. August and September prices for the major crops have been very negative with the exception of wheat which did go up a bit in price in September.

The livestock price situation shows a great variety, with cattle recording an 18 percent increase while hog prices, the weakest of all livestock prices, declined 20 percent. Overall, all Kansas farm products brought in an additional 18.3 percent in terms of prices for Kansas farmers in this 12-month period.

In respect to farm production, we have the numbers for Kansas and the U.S. for 1978 and 1979 for major crops. Every crop in Kansas recorded an increase in output. A whopping increase of 55 percent in soybean production was recorded; there was an increase of about 33 percent for wheat. For Kansas in comparison to the nation, the percentage increases in output for all crops in the State were greater than the increases recorded for the United States. In terms of yields per acre, again, in every crop, Kansas had increases greater than the increase for the U.S.

Let's look at a review of consumer prices (see Table 7). We have the consumer price index (CPI) broken up into eight components for the United States. Unfortunately, we don't have a CPI for Kansas, but there are numbers for Kansas City. We see that for the U.S., August 1979 compared to August 1978, the increase is about 12 percent. There were strong price increases in the transportation and housing areas, especially. On the other hand, for Kansas City, the increase was almost 15.6 percent, also with the increases most notably in the transportation and housing categories.

Those of you who have read the November issue of *Kansas Business Review* know of our efforts at the KU Institute for Economic and Business Research to develop price indices within the State. What has been found so far indicates to us that we can expect that the Wichita price increase is as rapid or more rapid than Kansas City's and that in the State's rural areas, especially those located some

Table 6
Kansas Farm Prices

	Sept. 1979	Sept. 1978-Sept. 1979 (% Change for Year)
Hay, ton	47.00	14.6
Corn, bu.	2.53	21.1
Soybeans, bu.	6.93	11.2
Sorghum, cwt.	3.92	22.1
Wheat, bu.	3.83	36.3
Cattle, cwt.	68.20	18.0
Hogs, cwt.	38.10	– 20.3
All Crops		34.2
Livestock and Products		10.6
All Farm Products		18.3

Table 7
Consumer Price Indexes, Percentage Change August 1978 to August 1979

	U.S.	K.C.
Food and Beverages	9.6	9.2
Housing	12.8	19.5
Apparel and Upkeep	4.2	7.5
Transportation	16.7	19.5
Medical Care	9.2	12.2
Entertainment	7.2	4.4
Other Goods and Services	7.1	7.9
Personal	0.0	10.5
Total	11.8	15.6

Table 8
Kansas City Real Spendable Income (Factory Workers, 1967 = 100)

Feb. 1978	115.78
April 1978	120.75
June 1978	120.82
Aug. 1978	117.26
Oct. 1978	123.75
Dec. 1978	125.40
Feb. 1979	117.36
April 1979	111.12
June 1979	115.27
Aug. 1979	112.60
Oct. 1979	113.20

Table 9
Selected Commercial Bank Data (Monthly Average, Millions)

	Loans	Demand Deposits	Time Deposits
I-78	$6,719	$3,937	$6,913
II-78	6,918	3,844	7,061
III-78	7,240	3,777	7,104
IV-78	7,283	3,967	7,317
I-79	6,547	4,089	7,525
II-79	7,682	3,896	7,816
III-79	7,822	3,922	7,989

distance from metropolitan areas, the price index rises more rapidly than in Kansas City.

Consider, now, Kansas City real spendable income, what dollars will buy after taxes, for factory workers (see Table 8). In August 1979, the index stood at 112.6 on the basis of 1967 equals 100. In other words, in a dozen years the average real spendable income for Kansas City factory workers grew by some 12 percent—only by 1.0 percent per year. The number at the end of 1978 was around 125, versus 112 in August 1979. It's no wonder that the economy is going into a recession—people don't have as much spending power.

Let's now examine current bank data, and this is a difficult situation (see Table 9). This October isn't the first time that the Federal Reserve did something dramatic. They tried to do something of the sort back in November 1978, and the consequence of the Fed's actions then was a significant decline in loans. From the beginning of 1978 to the third quarter of 1979 in Kansas, loans increased about 16.4 percent, which is slightly less than the rate of inflation; therefore, loans are not really growing during this period. In terms of demand deposits, the growth is, in fact, negative. Of course, there's been substantial growth in time deposits as funds have been shifted out of demand and into time deposits.

The savings and loan situation is even bleaker (see Table 10). Look at the trend of mortgage loans from the second quarter of 1978 to the third quarter of 1979. Look especially at that decline in the first quarter of 1979. Every month since November 1978, except April 1979, had a smaller volume of loans made than the same month a year earlier. So, a nearly uninterrupted pattern of decline for loans is what occurred through all 1979. Further, note what happened in terms of savings and loan deposits. There were some months in which there was net outflow of funds from these institutions, but the overall lack of growth in new savings foretold the difficulty that the housing market is in today. What these numbers reveal is that the difficulties in the housing market started before October or November of 1978 and that the housing market difficulty should have been anticipated considerably before that time.

We can expect that the Wichita price increase is as rapid or more rapid than Kansas City's and that in the State's rural areas, especially those located some distance from metropolitan areas, the price index rises more rapidly than in Kansas City.

Look next at the unemployment situation in Kansas (see Figure 1). The most current data for July 1979 show that along the Kaw River Valley unemployment rates were 5.0, 6.0, and 7.0 percent and that down in the southeast they were in the 5.0's and 6.0's. Sedgwick County is in good shape at 4.0 percent, about the State average. Along the northern tier of counties and in the central part of the State, unemployment rates are well below 2.0 percent. On the other hand, in areas where employment growth seems to be fairly rapid, unemployment is still high. This condition applies in the northeast but not, of course, in the southeast.

As a final indicator of the Kansas economy, let us look at retail sales across the State. Kansas had a 14 percent growth in sales for this fiscal year—with clearly superior growth in manufacturing, in professional services, and in building supplies sales. However, there was weakness in general merchandise and apparel sales. On a regional basis, the data show that the statewide increase of 14 percent was only exceeded in two planning regions of the State: in Region 1, Johnson and Wyandotte counties and the other counties in the east, and in Region 4, the area around Sedgwick County. In Johnson County alone, retail sales increased by 33 percent and in Sedgwick County by 16 percent. On this basis, it's interesting to note that the increase in sales in Johnson and Sedgwick counties represents 43 percent of the total increase in retail sales for the State as a whole. Thus, these retail sales data show the same kind of picture as does employment data. There are two areas of Kansas that are doing well; there is a lot of Kansas that doesn't seem to be sharing in that well-being.

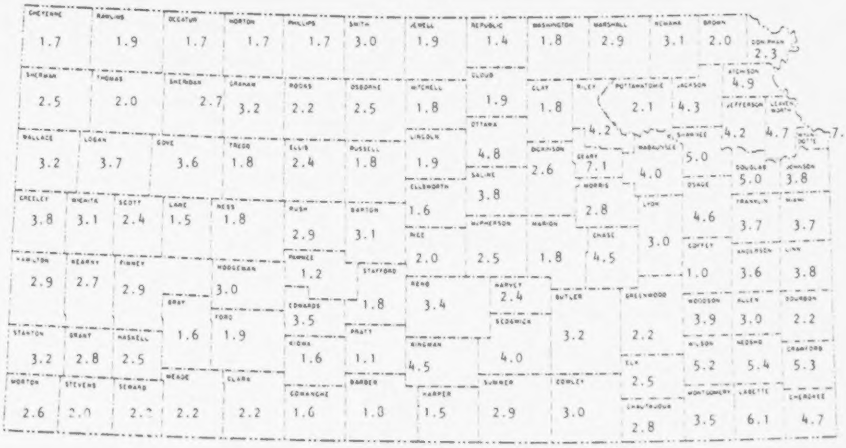
Table 10

Selected Savings and Loan Association Data (Monthly Average, Millions)

	Mortgage Loans Made	Net New Savings
I-78	$ 94.8	$46.3
II-78	149.0	35.0
III-78	135.3	43.7
IV-78	133.6	40.5
I-79	79.3	62.1
II-79	133.8	17.0
III-79	107.5	24.2

Figure 1

UNEMPLOYMENT RATES, JULY 1979
(Percent)


CHEYENNE 1.7
RAWLINS 1.9
DECATUR 1.7
NORTON 1.7
PHILLIPS 1.7
SMITH 3.0
JEWELL 1.9
REPUBLIC 1.4
WASHINGTON 1.8
MARSHALL 2.9
NEMAHA 3.1
BROWN 2.0
DONIPHAN 2.3
SHERMAN 2.5
THOMAS 2.0
SHERIDAN 2.7
GRAHAM 3.2
ROOKS 2.2
OSBORNE 2.5
MITCHELL 1.8
CLOUD 1.9
CLAY 1.8
RILEY 4.2
POTTAWATOMIE 2.1
JACKSON 4.3
ATCHISON 4.9
JEFFERSON 4.2
LEAVENWORTH 4.7
WYANDOTTE 7.7
WALLACE 3.2
LOGAN 3.7
GOVE 3.6
TREGO 1.8
ELLIS 2.4
RUSSELL 1.8
LINCOLN 1.9
OTTAWA 4.8
DICKINSON 2.6
GEARY 7.1
WABAUNSEE 4.0
SHAWNEE 5.0
DOUGLAS 5.0
JOHNSON 3.8
GREELEY 3.8
WICHITA 3.1
SCOTT 2.4
LANE 1.5
NESS 1.8
RUSH 2.9
BARTON 3.1
ELLSWORTH 1.6
SALINE 3.8
MORRIS 2.8
LYON 3.0
OSAGE 4.6
FRANKLIN 3.7
MIAMI 3.7
HAMILTON 2.9
KEARNY 2.7
FINNEY 2.9
HODGEMAN 3.0
PAWNEE 1.2
STAFFORD 1.8
RICE 2.0
McPHERSON 2.5
MARION 1.8
CHASE 4.5
COFFEY 1.0
ANDERSON 3.6
LINN 3.8
GRAY 1.6
FORD 1.9
EDWARDS 3.5
RENO 3.4
HARVEY 2.4
BUTLER 3.2
GREENWOOD 2.2
WOODSON 3.9
ALLEN 3.0
BOURBON 2.2
STANTON 3.2
GRANT 2.8
HASKELL 2.5
KIOWA 1.6
PRATT 1.1
KINGMAN 4.5
SEDGWICK 4.0
ELK 2.5
WILSON 5.2
NEOSHO 5.4
CRAWFORD 5.3
MORTON 2.6
STEVENS 2.0
SEWARD 2.2
MEADE 2.2
CLARK 2.2
COMANCHE 1.6
BARBER 1.8
HARPER 1.5
SUMNER 2.9
COWLEY 3.0
CHAUTAUQUA 2.8
MONTGOMERY 3.5
LABETTE 6.1
CHEROKEE 4.7

Statewide 3.9%

The Kansas Economy

By Jarvin Emerson

I would like to begin my review of the Kansas economy and the outlook for 1980 by reading a couple of paragraphs from the front page story in yesterday's *Wall Street Journal*. I think that this piece establishes the general tenor of the kind of situation we seem to be in. The article starts this way: "Has the economy entered a recession? Maybe yes or maybe no. Maybe a recession began last spring, or maybe one won't start until next year. Confusion abounds among people who make a living trying to tell others just where the economy stands. Most business analysts agree that a recession is somewhere in the neighborhood. But there is much uncertainty over the exact location. Comfortably ensconced in the house, knocking at the door, or trudging slowly up the pathway? The arbiter when recessions begin and end—the National Bureau of Economic Research—has just cancelled a news conference at which its analysts had planned to tell reporters where the economy stands. After meeting privately a few days ago, a National Bureau of economists explains, 'We concluded that the data are so contradictory that it's hard to say where we do stand.'"

With that general outlook from *The Wall Street Journal* in mind, I will try to describe for you just a little bit of what is going on in the State economy with a brief overview of the national economy. Since Dr. Daicoff has thoroughly reviewed the national outlook, I will simply look at a few numbers that suggest what I anticipate is going to happen yet in 1979 and how I think the final 1979 major performance numbers of the national economy will appear once we economists and statisticians go through a variety of revisions with the data. Indeed, there was a brief time when I thought I would entitle my speech today "Subject to Revision."

In Table 1, we see four numbers that attempt to represent our best estimate of the way in which 1979 has performed and will continue to perform. An evaluation of the 1979 economy is, as I've tried to indicate, a matter of trying to forecast not only the performance of the economy but also of trying to forecast the magnitude and number of revisions that are likely to occur. First of all, for the year as a whole, what I anticipate is a very moderate real growth in GNP of about 1.6 percent. The inflation rate, as identified in Table 1, is probably somewhat higher than the ones you have seen and, in fact, is somewhat higher than those that were reported recently. We may come in with an annual average rate of inflation that is somewhere between 12 and 13 percent for the consumer price index. As you may be aware from the news releases in the last few months, it has been running 13 percent or better, and this rate coupled with further revisions may mean that the inflation rate will be running about 12.5 percent. This figure contrasts to the forecasts that were made only about a month ago that indicated it would be somewhere around 11 percent. Personal income growth for the U.S. is estimated to be about 11.6 percent; the unemployment rate about 5.9 percent.

These national figures provide some background for the four indexes of the Kansas economy, and I will expand on each in a moment. First, as seen in Table 2 , gross State product, which is the sum total of all new goods and services produced in the State in 1979, will increase at about a 14.7 percent rate. Personal income for the State forecast (and, again, this is still a *forecast* because we are still in 1979) will increase at a rate of about 14.5 percent. Overall employment growth should experience a relatively robust increase of 3.0 percent, and the unemployment rate should average for the year at about 3.1 percent.

Now, I want to look at these numbers in greater detail. Kansas personal income for 1978 was about 18.5 billion dollars. The forecast that we currently have for 1979 indicates that wages and salaries will rise at about 14.5 percent. A combination of influences accounts for this expected increase (see Table 3). First there is the anticipated 3.0 percent increase in total employment; second, general wages and salaries have increased so far in 1979 on a unit basis; and, third, there were significant overtime payments during parts of the year in a few of the key industries. Looking a little more closely at these influences, my expectation for 1979 is that farm income will go up somewhere in the neighborhood of 25 percent. Of course, as we keep getting more and more data in, I may change my mind a little bit on that estimate, but there is little question that the number will be positive and some certainty that the number will be relatively

Table 1

Forecast of Major U.S. Economic Trends—1979

Indicators	Percent
GNP (constant dollars) Growth	1.6
Inflation Rate (annual average), CPI	12.5
Personal Income Growth	11.6
Unemployment Rate	5.9

Table 2

Forecast of Major Kansas Economic Trends—1979

Indicators	Percent
Gross State Product (current dollars) Growth	14.7
Personal Income Growth	14.5
Employment Growth	3.0
Unemployment Rate	3.1

large. Looking elsewhere, we should see fairly significant increases in the category of property income, dividends, interest, rent, and royalties—all expected to rise by over 17 percent, mostly on the basis of interest received. Transfer payments are forecast to be up a little bit but to be less than the average for the other categories. Social insurance contributions should increase by about 19 percent in 1979. You all are aware, or will become aware if you aren't already, that you are going to be paying significantly more in social security contributions in 1979 than you did in 1978 because both the rate and the maximum were raised. The total effect of these influences on Kansas personal income should be an increase of about 14.5 percent for 1979, an increase which is more substantial than the predicted average for the national economy and is at least at the average for states in our area if not above it.

Taking another long-term perspective on Kansas personal income, we can discuss how the changes in Kansas personal income have tracked with regard to the national economy. At the beginning of the period from 1958-1978, it looked like Kansas was moving in the opposite direction of the national economy. Then, for the period of the 1960s, Kansas seemed to mirror the national growth rate. However, in the early 1970s, Kansas had substantial increases in farm income along with increases in some other sectors, and the national economy's growth rate was substantially below that for the State. This pattern continues throughout 1978 wherein the Kansas growth rate once again exceeded the national economy.

A more recent pattern is revealed when we consider the way in which Kansas personal income has increased on a quarterly basis according to U.S. Department of Commerce estimates from 1977 through the first quarter 1979. The figures describe a fairly generally upward pattern with no quarters of negative income growth in current dollar terms, and the degree of growth for the State exceeds that for the nation.

In terms of the growth in personal income, my anticipation is that the slowdown in the national economy will affect the Kansas economy but to a somewhat lesser extent than most other parts of the country.

I now want to look in greater detail at the State's employment situation based on the estimates that we have to date, and I also want to make one comment about these estimates. The most current and accurate detailed data that we have for the performance of the Kansas economy in respect to the employment data comes from the Research and Analysis Section of the Division of Staff Services, the Kansas Department of Human Resources. In addition to their regular tabulations, Fred Rice and his staff provided some special tabulations for this presentation today for which I am very grateful. However, any misinterpretation or any forecasts or estimates that are made from that data are my responsibility alone. First of all, the employed civilian work force will probably increase by about 3.0 percent, as I've already indicated, but agricultural employment is estimated to decline by 2.6 percent which represents a pretty standard kind of pattern for that industry. The manufacturing employment monthly average should increase somewhere in the neighborhood of 8.1 percent. I think that most of this increase will be in the general category of durable goods, primarily transportation equipment manufacturing, and I will take a further look at that figure in a few moments. In contract construction, employment is forecast to increase by about 7.5 percent over the year on an average monthly basis—a surprising rate in light of the housing situation. Employment in services should rise by about 4.6 percent, and governmental employment should decline slightly, about 1.1 percent.

When we compare the 1978 and 1979 State employment figures, we see that the unemployment rate was relatively low in 1978 and even lower in 1979. Manufacturing employment, as I have mentioned, will be up substantially over the year. More specifically, employment in food and kindred product manufacturing will rise moderately over the 1978 number. Employment in meat products manufacturing and in dairy product manufacturing is expected to be a little bit higher. Grain mill products manufacturing employment should show relatively small change. Employment in transportation equipment manufacturing is expected to experience a very substantial increase over the year despite the problems in the automobile manufacturing category in 1979: declining automobile sales and, in the Kansas City area, a seriously declining roof at the G.M. plant. The major influence in this general category is the aircraft manufacturing component which continues to expand very dramatically. This increase in employment will more than offset the other declines in the category and accounts for my forecast for the substantial increase that I noted earlier. Contract construction employment in 1979 should also be up substantially. Finance, insurance, and

Table 3

Kansas Personal Income Forecast—1978-1979 (millions of dollars)

	1978	1979	% Change 1978-1979
Wages and Salaries	10,436	11,950	14.5
Other Labor Income	1,041	1,207	15.9
Proprietor's Income			
Farm	760	950	25.0
Nonfarm	1,239	1,349	8.9
Dividends, Interest, Rent, Royalties	2,808	3,291	17.2
Transfer Payments	2,155	2,405	11.6
Residence Adjustment	800	913	14.1
—Social Insurance Contributions	– 734	– 873	19.0
Total	18,505	21,192	14.5

real estate employment should increase moderately over the year; employment in wholesale and retail trade should parallel the general expansion in both State income and employment but be up a little less than it has been in previous years. Services and industry continues to exhibit relatively strong employment growth in the State and will probably increase fairly significantly over the year. The last major component of total State employment is government. The slight decline, particularly early in 1979 as compared to the 1978 numbers, suggests a pattern that must be somewhat different from the national pattern.

The next economic indicator for the State that I want to look at is the performance of the major labor market areas in order that those of you who have come from various parts of Kansas can get some kind of feel for what has been going on in your particular community. Again, I have data essentially through September. Employment in Atchison and Leavenworth was up moderately for the year, and Salina also had relatively moderate growth. Pittsburg remained pretty much the same as a year ago. Employment in the Kansas City portion of the standard metropolitan statistical area—essentially Johnson and Wyandotte counties—was a major component of the employment growth in the State. Hutchinson was just slightly above 1978; Great Bend had a slight increase over the year. Topeka's employment experienced a small increase compared with 1978. Parsons was a little bit down in terms of employment levels in 1979. Coffeyville started out the year running above 1978 and then, more recently, has been running behind the employment pattern of a year ago. The second major growth area in terms of employment in the State—the Wichita, Butler, and Sedgwick area—had a substantial increase in employment in 1979 compared to 1978 primarily because of the growth in the aircraft industry. Lawrence had a relatively substantial employment increase in 1979 over 1978. McPherson's employment was about the same as a year ago; Concordia experienced a slight increase. Hays was about the same as a year ago. Garden City registered a slight increase and seems to be a community that is headed for more growth and then maybe some problems. The Goodland area recorded a slight decline in employment over the year; Dodge City a moderate increase. Emporia and Newton were pretty much the same as a year earlier, and Manhattan had a moderate increase over the year.

This quick review of the State's major labor markets concludes my look at the Kansas economy in 1979, and now I want to look ahead to 1980. Using the same four indicators that I started out with, I will share with you what I think is likely to occur in the United States economy (see Table 4). Probably my outlook is a bit more optimistic than Dr. Daicoff's in this particular regard. I foresee real growth GNP as basically zero to a two-tenths of a percent growth as compared with his forecast which, as I recall, was negative. I also anticipate that the inflation rate will slow down somewhat from what it will be for 1979, at least as measured in terms of the consumer price index, and that personal income growth may turn out to be roughly close to the inflation level. Lastly, I forecast the unemployment rate rising from 5.9 to 7.2 percent.

For the Kansas economy, using the same four indicators (see Table 5), I expect a situation wherein gross State product will reflect some of the national slowdown because Kansas does sell a significant portion of its goods and services outside the State and country: as compared to about a 14.7 percent increase in 1979, the 1980 forecast shows about 12 percent. In terms of the growth in personal income, my anticipation is that the slowdown in the national economy will affect the Kansas economy but to a somewhat lesser extent than most other parts of the country. Similarly, I foresee the employment growth rate, as compared to 3.0 percent this current year, coming in at about 1.8 percent, with the unemployment rate rising moderately to 3.4 percent.

In terms of the major categories of personal income, what I have for a forecast is wage and salary growth slowing down in 1980 to just slightly over 10 percent. Other labor income should rise just a little bit more than that. I also anticipate continuation of the increase in net farm income, but this general forecast is conditioned by the fact that international markets are still relatively strong and by the expectation that they should remain so through 1980 and possibly into 1981 before some of the international market softens. I believe that there are enough built-up demands currently in the international agricultural market that this strength will continue for this period of time. Interest rates should remain fairly high, and transfer payments should go up somewhat over this year as the economy softens a bit. In 1980, the decline in social insurance contributions, depending on whether we get some changes in the law, will probably take away about 8.0 percent from the hefty 19 percent rise in personal income that we will see in 1979.

Whereas the Kansas economy grew significantly more rapidly than the national economy in 1979, the general outlook for the State economy in 1980 is that it will slow down but at a rate still less than the national economy. The reason for Kansas' relative economic strength is that some of the major industries that are propelling our current growth are relatively immune from what we might call aggregate or total demand in the national economy. However, I am reminded again of my opening reflections on how the National Bureau of Economic Research responded when confronted with the responsibility of summarizing what is going on and what is likely to go on in the economy—they just decided not to do it. Maybe if we come back next year, someone will remind me that I should not have done it this year.

Table 4

Forecast of Major U.S. Economic Trends—1980

Indicators	Percent
GNP (constant dollars) Growth	0.2
Inflation Rate (annual average), CPI	10.1
Personal Income Growth	10.2
Unemployment Rate	7.2

Table 5

Forecast of Major Kansas Economic Trends—1980

Indicators	Percent
Gross State Product (current dollars) Growth	12.0
Personal Income Growth	11.9
Employment Growth	1.8
Unemployment Rate	3.4

Kansas in October

General Business

The surprising strength shown by the national economy during the third quarter of 1979—GNP grew by more than three percent on an annual basis—seems to be carrying over into the fourth quarter of 1979 which is also expected to show positive growth. In fact, a strong possibility exists that the long expected—and predicted—recession may not develop in 1980 either. Instead, a period of slow growth, but not negative growth, is now being considered as a forecast for 1980. This forecast implies a slow rise in the unemployment rate, an absence of growth in real wages, and some moderation in the rate of inflation. Some particular sectors of the economy—for example housing construction and automobile production—are expected to have a poor year in 1980, but their problems should not significantly affect the whole economy.

The Kansas economy continues to experience greater strength through the fall of 1979 than did the national economy. A review of the data provided by the Research and Analysis Section of the Kansas Department of Human Resources reveals that total nonfarm wage and salary employment by place of work in Kansas increased 0.5 percent in October and was 3.9 percent above the level of a year ago. For the quarter ending in October 1979, initial claims for unemployment insurance were down 6.1 percent from the same period a year ago. At the same time, the average work week has been slightly lower for the last few months than for the same months a year ago. Average weekly earnings for manufacturing increased 1.6 percent in October, and they have increased 9.4 percent in the last six months. But when compared to the level of a year ago, they are up only 11.6 percent, falling, therefore, somewhat below the rate of inflation for the year. In general, these data indicate that Kansas is following the national pattern: wages are increasing slower than prices, overtime is being cut back, and the number of employed persons is increasing fast enough to keep the unemployment rate stable. Given the increase in manufacturing productivity, the result of all these factors is higher manufacturing profits relative to the rise in wages and salaries. (See Table I.)

Employment

A detailed look at the employment data provided by the Research and Analysis Section of the Kansas Department of Human Resources discloses how evenly balanced the growth in Kansas employment has been in October. Of the ten major industries, six showed a growth of employment in October, and only one, contract construction with its seasonal variation, had a decline of more than 0.6 percent in employment. When October 1979 is compared to October 1978, all of the major industries experienced growth in employment. Two particular industries stand out in their employment growth over the last year—contract construction and aircraft production.

Statewide in October, the civilian labor force declined slightly as did the number of employed persons. Of course, farm employment dropped substantially in October. The number of unemployed persons increased, resulting in a 0.1 percent increase in the unemployment rate. Compared to a year ago, the size of the civilian labor force and the number of employed persons is up 3.1 percent, but the unemployment rate is also up slightly (less than 0.1 percent). (See Table II.)

Regional Employment

The regional employment figures available for October indicate that only two areas, the Lawrence and Wichita SMSAs, experienced a greater rate of growth in the number of employed persons than the State in the last year. However, only two areas, the Kansas portion of the Kansas City SMSA and the Topeka SMSA, had an increase in their unemployment rate from a year ago. As with the State, all areas except the Kansas portion of the Kansas City SMSA experienced a decline in farm employment. (See Table III.)

Retail Sales (for September)

The monthly average for total retail sales based on the retail sales tax for the quarter ending in September was up 5.3 percent over the monthly average for the preceding three-month period. Although 5.3 percent is a significant increase in retail sales, this 5.3 percent—due to the exemption of residential housing from the retail sales tax on public utilities which began July 1, 1979—underestimates the increase in retail sales during the last quarter. If the estimate for public utility sales is ignored, then retail sales during this three-month period rose 11.3 percent—more than three times the inflation rate. Of the twelve major categories of retail sales, only public utility sales had a decline over this period of time.

However, when the quarter ending in September of 1979 is compared with the quarter ending in September of 1978, a different picture emerges. Six of the twelve major categories of retail sales had declines during this period, and total retail sales grew by only 0.7 percent. Even if retail sales for public utilities are ignored, total retail sales still only grew 1.5 percent during this period which, in fact, represents a decline, in real terms adjusted for inflation, of more than 10 percent in retail sales. (See Table IV.)

County Retail Sales (for September)

The summer surge in retail sales is clearly documented by the county figures for the three-month period ending with September 1979. Of the State's 105 counties, only five experienced a decline in sales. Sixty-nine counties registered double-digit increases: sales in Sheridan County rose more than 40 percent, Greeley County sales increased by over 30 percent, and the remaining 67 counties recorded sales increase between 10 and 20 percent. This period of dramatic growth in summer sales followed the striking slump in the spring of 1979, and this pattern is consistent with the economic history of the State in recent years.

When the September quarter of 1979 is compared to the same quarter a year ago, only 59 counties record increases in retail sales, and, of these, only eight had increases sufficiently large to either offset or exceed the yearly rate of inflation. Therefore, this county data confirms and further dramatizes the interpretation of the statewide data mentioned above: in real terms adjusted for inflation, retail sales in Kansas from September 1978 to September 1979 fell far behind the rate of inflation. (See Table V.)

Farm Prices

The prices Kansas farmers received for corn, sorghum, and soybeans declined in October for the third straight month. Soybeans had the most severe decline in price: a drop of 10.4 percent from September and an 18.2 percent drop since July. The price received for hay remained the same in October, and the price received for wheat rose for the second month in a row.

Except for the price of milk, all of the prices Kansas farmers received for livestock and livestock products declined in October. The greatest decline was for hog prices which fell nearly 10 percent. For the last year, hog prices have fallen nearly every month.

However, the prices Kansas farmers received both for field crops and for livestock and livestock products are significantly above those of a year ago except for soybean and hog prices. The two products showing the greatest increase in price are wheat, up 31.2 percent, and sheep, up 62.6 percent.

In contrast to the trend in prices received by Kansas farmers, the prices paid by Kansas farmers all increased or remained the same in October, and, compared to a year ago, all are up more than 12 percent. (See Table VI.)

Financial Activity

The Federal Reserve's tight money policy seems to have influenced Kansas banking activity in October. Loans statewide fell 4.3 percent in October, and the loan-to-deposit ratio fell dramatically. Only Kansas City, Kansas among the regional banking centers experienced a growth in loans in October, and all of the regional banking centers had a drop in their loan-to-deposit ratios. In fact, Wichita and Topeka had a drop greater than the dramatic statewide decline. (See Table VII.)

The savings and loan data for October show an increase of 21.7 percent in mortgage loans made; however, compared to a year ago, mortgage loans made were down 13.7 percent. This decline over the year is consistent with the pattern mortgage loans made have set for the past ten months. The large drop in net new savings made is primarily the result of the quarterly

TABLE I
GENERAL BUSINESS INDICATORS

	Oct. 1979	Sept. 1979	% change	Avg. Prior 6 mos.	Annual Avg. 1978
Manufacturing					
Average Work Week (hrs.)	41.00	41.30	– 0.70	40.70	40.70
Average Weekly Earnings (dollars)	287.41	282.90	1.60	272.22	240.99
Initial Claims for					
Unemployment Insurance	6,994.00	4,815.00	45.30	7,624.00	8,082.00
New Incorporations					
In-State for Profit	427.00	319.00	33.90	381.00	336.00
Out-of-State for Profit	107.00	94.00	13.80	92.00	88.00

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

Kansas Secretary of State

TABLE II
NON-FARM WAGE AND SALARY EMPLOYMENT BY PLACE OF WORK

(thousands)

Industry	Oct. 1979	Sept. 1979	% change	Oct. 1978	% change
All Industries	958.4	953.2	0.5	922.6	3.9
Manufacturing	198.5	195.9	1.3	188.8	5.1
Durable Goods	131.2	128.0	2.5	121.9	7.6
Stone, Clay, Glass	10.3	10.4	– 1.0	9.8	5.1
Primary Metals	4.0	4.0	0.0	3.9	2.6
Fabricated Metal Products	13.9	14.0	– 0.7	14.0	– 0.7
Machinery (incl. elec.)	34.5	34.3	0.6	28.6	20.6
Transportation Equipment	55.2	51.9	6.4	52.1	6.0
Aircraft & Parts	47.9	47.2	1.5	40.8	17.4
Other Durable Goods	13.3	13.4	– 0.7	13.5	– 1.5
Nondurable Goods	67.3	67.9	– 0.9	66.9	0.6
Food & Kindred Products	24.1	24.0	0.4	23.3	3.4
Meat Products	9.3	9.3	0.0	8.5	9.4
Apparel	3.5	3.5	0.0	3.8	– 7.9
Printing & Publishing	15.7	16.2	– 3.1	15.3	2.6
Chemicals	8.5	8.4	1.2	8.3	2.4
Petroleum & Coal	4.8	4.8	0.0	4.6	4.3
Other Nondurable	10.7	11.0	– 2.7	11.6	– 7.8
Mining	13.4	13.4	0.0	12.9	3.9
Oil & Gas Extraction	10.9	11.0	– 0.9	10.6	2.8
Contract Construction	56.0	56.9	– 1.6	50.4	11.1
Trans., Comm., Elec., Gas	68.0	66.4	2.4	63.6	6.9
Wholesale Trade	62.4	62.1	0.5	61.6	1.3
Retail Trade	164.4	164.4	0.0	160.4	2.5
Finance, Insurance, Real Estate	47.3	47.4	– 0.2	45.3	4.4
Services	165.8	166.8	– 0.6	158.0	4.9
Federal Government	25.7	25.8	– 0.4	25.7	0.0
State & Local Government	156.9	154.1	1.8	155.9	0.6

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

crediting to deposit accounts of interest payments in September. (See Table VIII.)

Consumer Prices

Kansas City, Kansas consumer prices increased 2.4 percent from August 1979 to October 1979 and were 16.7 percent higher in October 1979 than a year ago. Both increases exceeded those for the nation during equivalent time periods. All of the major consumption categories registered increases in the two-month period ending in October, with housing prices the leader with a 4.0 percent increase. The other bimonthly increases ranged from a 2.8 percent rise in entertainment prices to an 0.2 percent rise in the costs for apparel and upkeep and for food and beverages. Not surprisingly, housing prices also experienced the largest increase over the year—in excess of 22 percent. Transportation costs followed as the second greatest increase with an 18.4 percent rise: private transportation prices rose 18.9 percent whereas public transportation rose by only 7.2 percent. Medical care and personal care prices also registered double-digit increases (10.1 percent and 11.4 percent, respectively), and all of the remaining categories recorded increases in a range from 8.3 percent in both food and beverage prices and other goods and services prices to 5.9 percent for entertainment. (See Table IX.)

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS

Area	Oct. 1979	Sept. 1979	% change	Oct. 1978	% change
Kansas—Statewide					
Civilian Labor Force	1,219,000	1,220,100	– 0.1	1,182,000	3.1
Employed	1,185,200	1,186,600	– 0.1	1,150,100	3.1
Farm	68,300	72,600	– 5.9	69,800	– 2.1
Non-Farm	1,116,900	1,115,800	0.1	1,080,300	3.4
Unemployed	33,800	33,500	0.9	31,900	6.0
Rate	2.8%	2.7%		2.7%	
Lawrence SMSA					
Civilian Labor Force	34,800	34,400	1.2	32,700	6.4
Employed	33,800	33,400	1.2	31,700	6.6
Farm	900	900	0.0	900	0.0
Non-Farm	32,900	32,500	1.2	30,800	6.8
Unemployed	1,000	1,000	0.0	1,000	0.0
Rate	2.9%	2.9%		3.1%	
Kansas portion of Kansas City SMSA					
Civilian Labor Force	266,300	265,000	0.5	258,900	2.9
Employed	257,000	255,300	0.7	250,600	2.6
Farm	1,500	1,600	– 6.3	1,600	– 6.3
Non-Farm	255,500	253,700	0.7	249,000	2.6
Unemployed	9,300	9,700	– 4.1	8,300	12.0
Rate	3.5%	3.7%		3.2%	
Topeka SMSA					
Civilian Labor Force	94,000	94,200	– 0.2	92,600	1.5
Employed	90,600	91,200	– 0.7	89,400	1.3
Farm	2,000	2,100	– 4.8	2,100	– 4.8
Non-Farm	88,600	89,100	– 0.6	87,300	1.5
Unemployed	3,400	3,000	13.3	3,200	6.3
Rate	3.6%	3.2%		3.5%	
Wichita SMSA					
Civilian Labor Force	226,100	224,500	0.7	211,900	6.7
Employed	220,400	218,900	0.7	205,700	7.1
Farm	2,800	2,900	– 3.4	2,600	7.7
Non-Farm	217,600	216,000	0.7	203,100	7.1
Unemployed	5,700	5,600	1.8	6,200	– 8.1
Rate	2.5%	2.5%		2.9%	

TABLE III
EMPLOYMENT—UNEMPLOYMENT DATA FOR KANSAS, STATE AND AREAS (Continued)

Area	Oct. 1979	Aug. 1979	% change	Oct. 1978	% change
Barton Co.—Great Bend Area					
Data Not Available					
Crawford Co.—Pittsburg Area					
Data Not Available					
Lyon Co.—Emporia Area					
Civilian Labor Force	18,150	17,250	5.2	17,725	2.4
Employed	17,775	16,850	5.5	17,325	2.6
Farm	900	1,000	– 10.0	925	– 2.7
Non-Farm	16,875	15,850	6.5	16,400	2.9
Unemployed	375	400	– 6.3	400	– 6.3
Rate	2.1%	2.3%		2.3%	
Montgomery Co.—Coffeyville Area					
Data Not Available					
Reno Co.—Hutchinson Area					
Data Not Available					
Riley Co.—Manhattan Area					
Civilian Labor Force	21,875	19,800	10.5	21,350	2.5
Employed	21,325	19,250	10.8	20,800	2.5
Farm	1,150	1,275	– 9.8	1,175	– 2.1
Non-Farm	20,175	17,925	12.6	19,625	2.8
Unemployed	550	550	0.0	550	0.0
Rate	2.5%	2.8%		2.6%	
Saline Co.—Salina Area					
Data Not Available					

Source: Research and Analysis Section
Division of Staff Services
Kansas Department of Human Resources

TABLE IV
RETAIL SALES SUBJECT TO SALES TAX BY BUSINESS CLASSIFICATION

(millions of do!lars)

Business Classification	Sept. * 1979	June * 1979	% change	Sept. * 1978	% change
Apparel	24.0	22.7	5.7	24.7	– 2.8
Automotive	200.7	196.5	2.1	212.1	– 5.4
Food	227.3	208.4	9.1	213.5	6.5
Furniture	39.2	36.9	6.2	39.4	– 0.5
General Merchandise	137.1	116.8	17.4	130.3	5.2
Lumber and Building Materials	92.8	72.2	28.5	91.9	1.0
Professional and Personal Service	38.0	33.0	15.2	36.4	4.4
Public Utilities	69.8	112.0	– 37.7	77.2	– 9.6
Unclassified	94.3	87.2	8.1	94.6	– 0.3
Farm and Garden Products	0.9	0.9	0.0	0.7	28.6
Manufacturing and Trading	71.8	59.8	20.1	67.4	6.5
Miscellaneous	2.2	1.6	37.5	3.3	– 33.3
Total	998.1	948.0	5.3	991.5	0.7

* Monthly Average for Prior Three Months

Source: Tax Research Section
Kansas Department of Revenue

TABLE V
RETAIL SALES SUBJECT TO SALES TAX BY COUNTY

(thousands of dollars)

County	Sales * Sept. 1979	Sales * June 1979	Change From June 1979 (%)	Sales * Sept. 1978	Change From Sept. 1978 (%)
Allen	4,876	4,737	2.9	5,167	– 5.6
Anderson	2,396	2,226	7.6	2,362	1.4
Atchison	4,503	4,480	0.5	4,697	– 4.1
Barber	2,506	2,160	16.0	2,404	4.2
Barton	22,248	18,922	17.6	22,021	1.0
Bourbon	5,384	5,073	6.1	5,173	4.1
Brown	3,271	3,036	7.7	3,427	– 4.6
Butler	14,264	11,186	27.5	13,397	6.5
Chase	651	688	– 5.4	664	– 2.0
Chautauqua	1,119	933	19.9	977	14.5
Cherokee	4,156	3,773	10.2	4,261	– 2.5
Cheyenne	1,307	1,161	12.6	1,331	– 1.8
Clark	575	529	8.7	604	– 4.8
Clay	3,336	2,897	15.2	3,262	2.3
Cloud	4,225	3,879	8.9	4,420	– 4.4
Coffey	2,201	1,921	14.6	2,194	0.3
Comanche	660	536	23.1	583	13.2
Cowley	12,558	11,166	12.5	12,299	2.1
Crawford	12,103	10,733	12.8	10,902	11.0
Decatur	1,560	1,358	14.9	1,590	– 1.9
Dickinson	5,996	5,147	16.5	5,776	3.8
Doniphan	1,955	1,691	15.6	1,757	11.3
Douglas	21,165	19,998	5.8	21,691	– 2.4
Edwards	969	908	6.7	1,056	– 8.2
Elk	630	679	– 7.2	744	– 15.3
Ellis	12,521	11,143	12.4	12,948	– 3.3
Ellsworth	2,028	1,607	26.2	1,734	17.0
Finney	15,235	13,099	16.3	14,055	8.4
Ford	14,398	12,112	18.9	13,491	6.7
Franklin	6,642	6,069	9.4	6,505	2.1
Geary	8,330	7,863	5.9	8,549	– 2.6
Gove	1,215	1,209	0.5	1,545	– 21.4
Graham	1,709	1,414	20.9	1,511	13.1
Grant	3,472	2,759	25.8	3,385	2.6
Gray	1,903	1,480	28.6	1,670	14.0
Greeley	698	509	37.1	568	22.9
Greenwood	2,754	2,173	26.7	2,734	0.7
Hamilton	870	687	26.6	864	0.7
Harper	2,841	2,491	14.1	2,685	5.8
Harvey	8,720	8,103	7.6	8,665	0.6
Haskell	1,064	940	13.2	1,120	– 5.0
Hodgeman	399	383	4.2	406	– 1.7
Jackson	2,097	2,259	– 7.2	2,455	– 14.6
Jefferson	2,925	2,366	23.6	2,889	1.2
Jewell	902	943	– 4.3	951	– 5.2
Johnson	112,585	104,104	8.1	110,318	2.1
Kearny	651	732	– 11.1	720	– 9.6
Kingman	2,431	2,124	14.5	2,256	7.8
Kiowa	1,296	1,136	14.1	1,260	2.9
Labette	7,507	7,011	7.1	7,545	– 0.5
Lane	829	682	21.6	815	1.7
Leavenworth	11,356	10,519	8.0	11,958	– 5.0
Lincoln	1,219	981	24.3	1,159	5.2

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* Monthly Average for Prior Three Months

TABLE V
RETAIL SALES SUBJECT TO SALES TAX BY COUNTY (Continued)
(thousands of dollars)

County	Sales * Sept. 1979	Sales * June 1979	Change From June 1979 (%)	Sales * Sept. 1978	Change From Sept. 1978 (%)
Linn	1,851	1,554	19.1	1,844	0.4
Logan	1,800	1,445	24.6	1,766	1.9
Lyon	12,285	11,988	2.5	12,311	– 0.2
McPherson	9,715	8,733	11.2	9,626	0.9
Marion	3,553	3,289	8.0	3,857	– 7.9
Marshall	3,905	3,707	5.3	3,829	2.0
Meade	1,286	1,239	3.8	1,276	0.8
Miami	5,397	4,711	14.6	5,326	1.3
Mitchell	3,516	3,051	15.2	3,499	0.5
Montgomery	14,868	13,488	10.2	14,599	1.8
Morris	1,409	1,215	16.0	1,595	– 11.7
Morton	1,094	1,035	5.7	1,159	– 5.6
Nemaha	3,152	2,644	19.2	3,225	– 2.3
Neosho	6,923	6,348	9.1	7,794	– 11.2
Ness	1,592	1,451	9.7	1,568	1.5
Norton	2,246	1,961	14.5	2,105	6.7
Osage	3,155	2,750	14.7	3,269	– 3.5
Osborne	1,759	1,625	8.2	1,912	– 8.0
Ottawa	1,255	1,073	17.0	1,232	1.9
Pawnee	3,153	2,702	16.7	3,213	– 1.9
Phillips	2,541	2,212	14.9	2,282	11.3
Pottawatomie	4,010	3,658	9.6	4,132	– 3.0
Pratt	5,129	4,314	18.9	4,834	6.1
Rawlins	1,011	836	20.9	1,047	– 3.4
Reno	27,841	24,738	12.5	27,575	1.0
Republic	2,333	2,091	11.6	2,190	6.5
Rice	3,127	2,973	5.2	3,298	– 5.2
Riley	14,383	13,535	6.3	15,170	– 5.2
Rooks	3,389	2,870	18.1	3,244	4.5
Rush	1,293	1,099	17.7	1,410	– 8.3
Russell	4,928	3,809	29.4	4,998	– 1.4
Saline	26,969	23,792	13.4	26,312	2.5
Scott	2,711	2,278	19.0	2,953	– 8.2
Sedgwick	182,221	167,078	9.1	169,923	7.2
Seward	11,429	10,082	13.4	10,899	4.9
Shawnee	72,997	63,984	14.1	68,694	6.3
Sheridan	1,368	970	41.0	1,488	– 8.1
Sherman	4,203	3,495	20.3	4,066	3.4
Smith	1,994	1,581	26.1	1,940	2.8
Stafford	1,585	1,385	14.4	1,573	0.8
Stanton	619	570	8.6	738	– 16.1
Stevens	1,575	1,293	21.8	1,519	3.7
Sumner	6,249	5,253	19.0	6,311	– 1.0
Thomas	4,786	3,808	25.7	4,808	– 0.5
Trego	1,425	1,281	11.2	1,632	– 12.7
Wabaunsee	1,152	986	16.8	1,128	2.1
Wallace	666	597	11.6	665	0.2
Washington	2,046	2,020	1.3	2,063	– 0.8
Wichita	941	873	7.8	993	– 5.2
Wilson	2,668	2,525	5.7	3,047	– 12.4
Woodson	1,064	870	22.3	1,040	2.3
Wyandotte	60,588	54,185	11.8	56,920	6.4

Source: Tax Research Section
Kansas Department of Revenue

TABLE VI
PRICES RECEIVED BY KANSAS FARMERS
(dollars)

Items	Oct. 1979	Sept. 1979	% change	Oct. 1978	% change	Annual Avg. 1978
Prices Received by Farmers						
Field Crops						
Wheat (bu.)	3.91	3.84	1.8	2.98	31.2	2.72
Corn (bu.)	2.52	2.54	− 0.8	2.17	16.1	2.21
Sorghum (cwt.)	3.84	3.95	− 2.8	3.34	15.0	3.29
Hay (ton)	47.00	47.00	0.0	45.00	4.4	40.88
Soybeans (bu.)	5.97	6.66	− 10.4	6.25	− 4.5	6.17
Livestock & Products						
Beef Cattle (cwt.)	65.60	68.20	− 3.8	56.30	16.5	50.72
Calves (cwt.)	83.60	89.80	− 6.9	67.90	23.1	58.78
Hogs (cwt.)	34.40	38.10	− 9.7	51.10	− 32.7	47.66
Lambs (cwt.)	64.60	66.70	− 3.1	59.50	8.6	59.47
Sheep (cwt.)	21.30	22.00	− 3.2	13.10	62.6	13.33
Milk (cwt.)	12.80	12.60	1.6	11.40	12.3	10.73
Prices Paid by Farmers						
Soybean Meal (cwt.)	12.50	12.50	0.0	11.00	13.6	10.92
Bran (cwt.)	7.70	7.20	6.9	6.10	26.2	6.27
Beef Conc. (cwt.)	9.90	9.60	3.1	8.60	15.1	8.58
16% Dairy Feed (ton)	162.00	156.00	3.8	143.00	13.3	138.17
Hog Conc. (cwt.)	14.00	14.00	0.0	12.50	12.0	12.31
Laying Feed (ton)	187.00	185.00	1.1	165.00	13.3	160.08

Source: Kansas Crop and Livestock Reporting Service
Kansas State Board of Agriculture
U.S. Department of Agriculture

TABLE VII
COMMERCIAL BANKING ACTIVITY

(millions of dollars)

	Oct. 1979	Sept. 1979	% change	Oct. 1978	% change
Kansas—Statewide					
Loans	7,517	7,858	– 4.3	7,027	7.0
Demand Deposits	4,018	3,940	2.0	3,841	4.6
Time & Saving Deposits	8,192	8,094	1.2	7,191	13.9
Loan-to-Deposit Ratio	61.6%	65.3%		63.7%	
Kansas City (Wyandotte)					
Loans	513	494	3.8	530	– 3.2
Demand Deposits	244	225	8.4	265	– 7.9
Time & Saving Deposits	566	540	4.8	511	10.8
Loan-to-Deposit Ratio	63.3%	64.6%		68.3%	
Topeka (Shawnee)					
Loans	486	516	– 5.8	442	10.0
Demand Deposits	294	286	2.8	289	1.7
Time & Saving Deposits	574	553	3.8	517	11.0
Loan-to-Deposit Ratio	56.0%	61.5%		54.8%	
Wichita (Sedgwick)					
Loans	1,184	1,250	– 5.3	1,116	6.1
Demand Deposits	794	758	4.7	698	13.8
Time & Saving Deposits	1,079	1,066	1.2	923	16.9
Loan-to-Deposit Ratio	63.2%	68.5%		68.8%	

Source: Research Department
Federal Reserve Bank of Kansas City
Institute for Economic and Business Research

TABLE VIII
SAVINGS AND LOAN ACTIVITY

(thousands of dollars)

	Oct. 1979	Sept. 1979	% change	Oct. 1978	% change
Net New Savings	24,254	55,737	– 56.5	33,708	– 28.0
Mortgage Loans Made	106,075	87,172	21.7	122,855	– 13.7

Source: Federal Home Loan Bank of Topeka

TABLE IX
CONSUMER PRICES

Kansas City

Consumer Price Index, October 1979

	All Urban Consumers (CPI-U)			Wage Earners and Clerical Workers (CPI-W)		
		Percent change from			Percent change from	
	INDEX 1967 = 100	2 months ago	1 year ago	INDEX 1967 = 100	2 months ago	1 year ago
ALL ITEMS	229.9	2.4	16.7	227.9	2.2	15.6
Food and Beverages	235.7	0.2	8.3	230.4	0.3	6.8
Food	241.1	0.1	8.4	235.8	0.2	6.6
Food at home	233.7	0.4	6.5	229.4	0.4	4.6
Cereals & bakery products	232.0	2.4	12.4	232.5	4.8	10.5
Meats, poultry, fish, & eggs	221.8	0.1	4.7	221.7	-0.8	3.9
Meats, poultry, & fish	228.7	-0.3	5.2	227.9	-1.3	4.3
Dairy products	219.3	0.2	3.9	218.7	0.0	4.8
Fruits and vegetables	235.5	-0.8	5.8	219.3	-0.7	-0.9
Other foods at home	270.4	0.5	7.4	263.2	0.9	5.4
Food away from home	262.7	-0.3	12.3	255.2	-0.3	10.8
Alcoholic beverages	185.5	1.2	8.2	179.8	1.5	10.1
Housing	246.3	4.0	22.8	243.9	3.6	21.0
Rent residential	153.1	2.2	6.2	153.1	2.2	6.2
Homeownership	317.3	7.4	34.1	314.3	7.3	31.7
Fuel & other utilities	226.7	-6.4	12.2	227.9	-6.3	13.0
Gas (piped) & electricity	287.3	-9.8	17.0	287.3	-9.9	17.0
Household furnishings & oper.	186.2	2.3	5.6	183.2	0.8	3.7
Apparel & Upkeep	182.9	0.2	8.0	174.3	-0.1	1.6
Men's & boy's apparel	196.1	-0.2	11.9	194.7	0.4	6.6
Women's & girl's apparel	168.1	-1.5	6.3	150.0	-4.3	-7.7
Footwear	199.2	2.1	14.7	195.0	7.4	13.0
Transportation	218.7	1.0	18.4	220.0	0.9	19.0
Private transportation	221.0	0.9	18.9	222.3	0.9	19.5
Public transportation	170.6	3.1	7.2	169.4	2.7	6.3
Medical Care	240.4	2.3	10.1	241.8	2.5	12.4
Entertainment	175.9	2.8	5.9	183.2	6.2	11.6
Other Goods & Services	204.3	2.2	8.3	208.4	1.8	10.4
Personal Care	205.4	0.9	11.4	213.6	0.7	16.4
ALL ITEMS (1957-59 = 100)	272.9			270.6		

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